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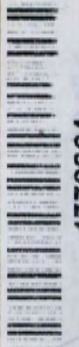
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McNamara Paper

Travel brief

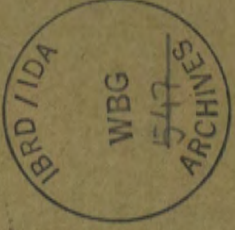

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 Travel Briefings: Mexico - Travel briefs 01

Folder 1 of 4

Folder 1 of 4

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WBG Archives



VISIT TO MEXICO--January 16-21, 1979

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
Jan. 16	1422	1922	Depart Washington (National)	EA177
Tues.	1643	2143	Arrive Miami	
	1745	2245	Depart Miami	Govt. plane
	1815	0015	Arrive Cancun	
	1845		Arrive Casa Maya	Govt. Guest House
	2000		Presentation on rural development issues in Yucatan by Everardo Espino, Director Banco de Credito Rural; presentation on PIDER Program: Regional Development Strategy by Messrs. Alfonso Cebreros and Miguel Angel Cuadra, Ministry of Programming and Budgeting	
	2100		Dinner (15 persons)	
Jan. 17	0800		Trip from Cancun to Henequen Zone, Ejido San Benito	by helicopter (1 hour)
Wed.	0900		Visit Henequen Zone	
	1100		Trip to Chichen Itza	by helicopter (30 min.)
	1130		Visit to Chichen Itza	
	1215		Trip to Santa Rosa	by helicopter (45 min.)
	1300		Visit Ejido "Justicia Social," Santa Rosa: Cattle unit, horticulture facilities and water supply	
	1330		Trip to Catmis PIDER microregion	by helicopter (10 min.)
	1340		Visit installations and social work in Catmis	
	1400		Trip to Cacalna	by helicopter (10 min.)
	1410		Visit Cacalna cattle unit	
	1430		Lunch	
	1530		Trip to Chacksikin microregion	by helicopter (15 min.)
	1545		Visit cattle unit, water supply, school and rural electrification in Chacksikin	
	1615		Trip to Loltum	by helicopter (30 min.)
	1645		Visit Loltum, Plan Chac for agricultural development	
	1715		Trip to Uxmal--one-hour rest period	by helicopter (45 min.)
	1900		Visit Light and Sound Show in Uxmal	
	2000		Trip to Merida	by road (1 hour)
	2100		Trip to Villahermosa	by airplace (1 hr)
	2215		Arrive Villahermosa	Governor's House
Jan. 18	0800		Breakfast w/Governor of Tabasco--he will explain development issues of the State and results of oil development	
Thurs.	0900		Depart for Museo de la Venta	
	0915		Visit Museo de la Venta	
	0945		Depart for FIRA Coconut Oil Plant	by road

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>	<u>REMARKS</u>	
Jan. 20 Sat.	0830		Visit downtown Mexico City--recent arch- eological discoveries	by car
	0945		Depart for Netzahualcoyotl	by car
	1030		Visit Netzahualcoyotl, deprived urban area	
	1130		Trip to Cimmyt	by helicopter (30 min.)
	1200		Visit Cimmyt	
	1330		Trip to Ejido Xicuco	by helicopter (30 min.)
	1400		Visit Ejido Xicuco	
	1430		Lunch in Xicuco	
	1530		Trip to Ejido Macua	by helicopter (15 min.)
	1545		Visit Ejido Macua	
	1615		Trip to Ejido Begona	by helicopter (30 min.)
	1645		Visit Ejido Begona	
	1730		Trip to city of Guanajuato via San Miguel Allende	by road (90 min.)
	1900		Visit historical town of Guanajuato	Hotel "Posada San Javier"
2030		Private dinner		
Jan. 21 Sun.	0800		Depart Guanajuato, arrive Ejido de Palo Alto, Aguascalientes State	by helicopter (1 hour)
	0900		Visit Ejido Palo Alto--drip irrigation	
	0930		Trip to Ejido Crisostomo	by helicopter (15 min.)
	0945		Visit Ejido Crisostomo--small irrigation	
	1015		Trip to Ejido Montoro	by helicopter (15 min.)
	1030		Visit Ejido Montoro--drip irrigation	
	1050		Trip to Ejido San Antonio de Penuela	by helicopter (10 min.)
	1100		Visit Ejido San Antonio de Penuela--irrigation	
	1120		Trip to Ejido Tanque de los Jimenez No. 1	by helicopter
	1130		Visit Ejido Tanque de los Jimenez No. 1 Lunch	(10 min.)
1330	1930	Trip to Leon Airport	by helicopter	
1415	2015	Depart Leon	Govt. plane	
1630	2230	Arrive Houston		
1744	2344	Depart Houston	EA554	
2124	0224	Arrive Washington (Dulles)		

CKW
January 11, 1979

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2. map with names + places to be visited
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Growth GDP pc. 10% annual
= 2% GDP

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- C. Map and State Department Notes
- D. List of Cabinet Members and Biographical Data
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- F. Reference Materials
 - 1. Country Program Paper
 - 2. Political Situation
 - 3. Mexico-US Relations
 - 4. Special Study of the Mexican Economy: Major Policy Issues and Prospects, 1977-1982 (Yellow Cover Report, December 15, 1978)
- G. Economic Situation
 - 5. Overview
 - 6. Long-term Issues and Prospects
 - 7. Short-term Outlook
 - 8. Oil Sector Developments and Issues
- H. Bank Group Operations
 - 9. Prospects and Issues
 - 10. Statement of Loans and IFC Operations
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- J. Mexican Participation in IDA and CGIAR
 - 19. IDA
 - 20. CGIAR
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- M. RMcN handwritten notes

Ignore

VISIT TO MEXICO OF MR. ROBERT McNAMARA, PRESIDENT

OF THE WORLD BANK

JANUARY, 1979

TUESDAY, JANUARY 16:

- 14:30 Departure from Washington on Flight EA 177 bound for Miami.
- 16:45 Arrival in Miami.
- 17:45 Departure from Miami to Cancun on a Banco de México aircraft (14 passengers). Mr. and Mrs. Eduardo Pesqueira will greet Mr. and Mrs. Robert McNamara at the Miami airport and will accompany them to Cancun.
- 18:45 Arrival at Casa Maya (FONATUR's Visitors' House in Cancun).
- 18:45 - 19:45 Time Adjustment.
- 20:00 Presentation on rural problems in Yucatan. Problems related to the production of sisal. Mr. Everardo Espino, Director General, Banco de Crédito Rural, S. A.
- Presentation on the PIDER program. Regional development strategy. Mr. Alfonso Cebreros and Mr. Miguel Angel Cuadra, Ministry of Programming and Budget.
- 21:30 Rest - Dinner.

Cuadra - Dir Gen y Reg Dir in Prog Balam

WEDNESDAY, JANUARY 17:

YUCATAN

7:30 - 8:00	B ¹	Transfer to Cancun's Airport
8:05 - 9:05	H	Transfer from Cancun to the sisal growing zone. Ejido San Benito (Cattle Raising).
9:05 - 9:30		Ejido San Benito
9:30 - 9:45		Arrival at Ejido Sanlahtah (<i>Classical Wenguen</i>)
9:45 - 10:10	H	Transfer from Sanlahtah to Chichén Itzá flying over Ejido Cacalchén.
10:55 - 11:45		Visit of Chichén, Mrs. McNamara will join the group at this time. <i>with Victor Segovia (archeologist)</i>
11:45 - 12:20	H	Transfer from Chichén to Ejido Justicia Social. Stock Breeding unit, fruit producing unit and water supply system.
12:50 - 13:05	B	Transfer from Justicia Social to -- Catmís.
13:05 - 13:35		Catmís. Tour of facilities and social works.
13:35	H	Departure for Chacsinkín.
13:50		Arrival at Chacsinkín - water supply system, housing and huarache factory.
14:20		Departure for Kakalná.
14:35		Arrival at Kakalná - Visiting the fields under cultivation - fruit, corn, orchard - Chac = God of Water. Ing. José Lugo - Banco Internacional (Mexican Private Bank) explanation of the program. Transfer in Mini Buses - tour of the fields.

14:55	H	Departure from Kakalná.
15:20		Arrival at Loltúm. Luncheon.- Program: a) INI - Leonel Vera b) FIRA - Rubén Corona c) PIDER Evaluation - Arturo Warman d) PIDER - Execution - Mr. Caballero
16:50	B	Departure from Loltúm.
17:40		Arrival at Uxmal. Pause in lodging facilities (Villas Arqueológicas) until:
18:30		The State Governor Mr. Francisco Luna Kahn will greet Mr. and Mrs. McNamara and their party and accompany them to the Light and Sound show.
19:00		Light and Sound show in Uxmal.
20:00	B	Transfer to Mérida on a special Bus of the State Government.
21:00		Arrival at Mérida's airport.
21:05	A	Departure for Villahermosa in the Banco de México Aircraft.
22:00		Arrival in Villahermosa were Mr. and Mrs. McNamara are to be greeted by be State Governor.
22:15		Accomodation at Quinta Grijalba, the Governor's House.
1 - Airplane (A) Bus (B) Helicopter (H)		

NOTE .- At every location, transportation will be available for touring the areas and facilities under the respective programs.

. . . .

Mrs. McNamara will not attend the first part of this program. She will be leaving Cancún at the same time but will be bound for Valladolid where the National Institution for Ethnic Groups (I.N.I. Instituto Nacional Indigenista) will make a presentation on a program for assistance to campesino women in spinning and weaving workshops. Later on, Mrs. McNamara will proceed to Chichen Itza where she will visit the Ruins.

THURSDAY, JANUARY 18:

TABASCO

- 08:00 - 09:⁰/₂₀ Breakfast. The Governor of the State of Tabasco will discuss the problems of the State resulting from the development of the oil industry. (Boat cruise along the Grijalva River).
- 09:⁰/₂₀ - 09:⁰/₂₅ B Transfer to the Museum of la Venta.
- 09:⁰/₂₅ - 09:55 Tour of the Museum *with exhibits relating to State*
- 09:55 - 10:00 Transfer to the coconut oil plant of the co-operative financed by F.I.R.A. Meeting with cooperative members and explanation of their operation by Mr. Horacio García Aguilar, Director General of F.I.R.A.
- 10:45 - 11:00 B Transfer to the Villahermosa airport.
- 11:00 - 11:15 H Transfer from Villahermosa to ejido Manuel Buelta. *(visit by planting gardens & fish farms)*
- 11:15 - 12:15 Tour of the ejido.
- 12:00 - 12:30 H Transfer to ejido Zunu y Patastal.
- 12:30 - 13:00 Tour of the ejido.
- 13:00 - 13:30 H Transfer to ejido Palomas, a tourist ejido.
- 13:30 - 14:30 Luncheon with the personnel of the Under Ministry of Hydraulic Works, S.A.R.H. A presentation will be made by Mr. Fernando González on the agricultural program for the humid tropics (PRODERITH) financed by the World Bank^{1/}.
- 14:30 - 15:00 H Transfer to Rancho de la Victoria.
- 15:00 - 15:30 Tour of Rancho de la Victoria. Research programs.
- 15:30 - 15:40 H Transfer to Zapotal.
- 15:40 - 16:00 Tour of the works under the Plan for area expansion - infrastructure - agricultural extension, camp sites and sewerage.
- 16:00 - 17:00 H Transfer to the Pajaritos and Cangrejera Industrial Complex, flying over the facilities of PEMEX, SOMEX, FERTIMEX, and the private sector, arriving at Minatitlan's airport.

1/ In the afternoon, Mrs. McNamara will visit the Ruins of Palenque and afterwards will fly directly to Mexico City.

17:10 A Transfer to Mexico City.

18:15 B Arrival in Mexico City and transfer to PEMEX Headquarters.

19:00 Arrival to PEMEX.

19:15 An explanation will be given on the project for industrial ports.

19:45 Coffee break.

20:00 - 21:30 Meeting with PEMEX officials on the past, present and future situation of the oil industry in Mexico.

21:30 B Registration in the Presidente Chapultepec Hotel.

FRIDAY, JANUARY 19:

MEXICO CITY

08:00 - 09:15 Private breakfast.

09:15 Departure from the Presidente Chapultepec Hotel.

10:00 - 11:30 Meeting with Mr. David Ibarra, Minister of Finance.

Attendants:

Mr. G. Romero Kolbeck.

Mr. J. Espinosa de los Reyes.

Mr. E. Olivares Santana.

Mr. M. de la Madrid.

Mr. J. Silva-Herzog F.

Mr. B. Sepúlveda Amor.

Mr. E. Pesqueira.

12:00 Meeting with Mr. López Portillo, President of Mexico.

13:00 - 14:30 Meeting with other Ministers:

Mr. David Ibarra, SHCP.

Mr. M. de la Madrid, SHCP

Mr. R. García Sainz, SPP

Mr. A. Cebreros, SPP

Mr. J. A. Oteyza, SEPAFIN.

Mr. H. Hiriart, SEPAFIN.

Mr. P. Ramírez Vázquez, SAHOP.

Mr. R. Félix Valdés, SAHOP.

Mr. F. Merino Rábago, SARH.

Mr. Américo Villarreal, SARH.

Subjects for discussion:

Agricultural development

Industrial development

Regional development

Development of energy sources

Middle-term outlook of the Mexican economy.

14:30 - 16:30 Luncheon with the Private Sector.

Bankers' Club (10 persons):

C. Abedrop, President, Mexican Bankers' Association.

Bernardo Quintana, President, I.C.A. Group.

Bernardo Garza Sada, President, ALFA Group (Monterrey)

Alejandro Alvarez Guerrero, Director General, MASECA

Lic. Jerónimo Arango.- Director General AURRERA Group.

L. Guzmán de Alba, President, CANCAMIN.

M. Espinosa Iglesias, President, BANCOMER.

Guillermo de Zamacona, President, CONCANACO.

Juan Manuel Martínez Gómez, President, CANACINTRA.

A. Legorreta, Director General, BANAMEX.

Jesús Silva-Herzog F., Coordinator.

Eduardo Pesqueira, Coordinator.

WDR ... food + energy

... 7 days

... to get

... in skin

... Campuzin

... what

FRIDAY, JANUARY 19:

08:00 - 09:15 Private breakfast.

09:15

Departure from the Presidente Chapultepec Hotel.

10:00 - 11:30

Meeting with Mr. David Ibarra, Minister of Finance.

Attendants:

- Mr. E. Pespueira
- Mr. B. Sepúlveda Amor
- Mr. J. Silva-Herzog F.
- Mr. M. de la Madrid
- Mr. E. Oliveros Santana
- Mr. J. Espinosa de los Reyes
- Mr. G. Romero Kolbeck

12:00

Meeting with Mr. López Portillo, President of Mexico.

13:00 - 14:30

Meeting with other Ministers:

- Mr. David Ibarra, SHCP
- Mr. M. de la Madrid, SHCP
- Mr. R. Garza Sainz, SPP
- Mr. A. Ceperos, SPP
- Mr. J. A. Oteyza, SEPAFIN
- Mr. H. Hiriart, SEPAFIN
- Mr. P. Ramírez Vázquez, SAHOP
- Mr. R. Félix Valdés, SAHOP
- Mr. F. Merino Rábago, SARH
- Mr. Américo Villarreal, SARH

Subjects for discussion: Middle-term outlook of the Mexican economy. Development of energy sources. Regional development. Industrial development. Agricultural development.

14:30 - 16:30

Luncheon with the Private Sector.

Bankers' Club (10 persons):

- C. Abarrop, President, Mexican Bankers' Association
- Ernando Quintana, President, I.C.A. Group
- Bernardo Garza Sada, President, ALFA Group (Monterrey)
- Alejandro Álvarez Guerrero, Director General, MASECA
- Lic. Jerónimo Arango, Director General, AURRERA Group
- L. Guzmán de Alba, President, CANCAMIN
- M. Espinosa Iglesias, President, BANCOMER
- Guillermo de Zamacois, President, CONCANACO
- Juan Manuel Martínez Gómez, President, CANACINTRA
- A. Legorreta, Director General, BANAMEX
- Jesús Silva-Herzog F., Coordinator
- Eduardo Pespueira, Coordinator

17:00 - 18:30

Meeting with intellectuals:

V. L. Urquidi.
Emilio Rosenblueth
Leopoldo Solís.
Rodolfo Stavenhagen.
Samuel del Villar.
Pablo Latapí.
Luis Unikel.
Javier Márquez.

*Over prep. Key studies,
master plan, 7 for asset
+ 2 out end: P. del Villar, top goods
reports; a few
Pop
Labor force
Poverty
Long-term plan*

*(Parsons - continued
not an effort*

A draft agenda to be prepared.

*Admin reform
Decent*

18:30 - 19:30

Press conference at the Presidente Chapultepec Hotel. Financial Newsmen - foreign press.

*Prostressed
Stabilization*

21:00

Dinner offered by the Minister of Finance. Hacienda de Los Morales.

*social equity
The justice
mechanism
at the
controlling approach
in and for some
level*

SATURDAY, JANUARY 20:

MEXICO CITY

7:30 - #4110
Breakfast.

08:00 - 08:30 B Transfer to downtown Mexico City. Visit of recent archeological diggings.

08:30 - 09:15 Tour and explanation of the archeological findings.

09:15 - 10:00 B Transfer to Ciudad Netzahualcoyotl.

10:00 - 11:15 Tour of Ciudad Netzahualcoyotl.

11:15 - 12:00 H Transfer from Ciudad Netzahualcoyotl to CIMMYT^{1/}.

12:00 - 13:30 Visit of CIMMYT.

13:30 - 14:00 H Transfer from CIMMYT to Xicuco.

14:00 - 14:30 Visit of Xicuco.

14:30 - 15:30 Luncheon at Xicuco. Hosted by Ing. Américo Villarreal SARH. Governor Rojo Lugo and his wife will attend this luncheon.

15:30 - 16:00 H Transfer to Macua.

16:00 - 16:30 Visit of Macua.

16:30 - 17:00 H Transfer from Macua to Begoña.

17:00 - 17:30 Visit of Begoña.

17:30 - 19:00 B Transfer from Begoña to the City of Guanajuato.

19:30 Arrival in Guanajuato.

20:00 Dinner.

21:00 Informal tour of Guanajuato.
(Callejoneada)

1/ After visiting Netzahualcoyotl, Mrs. McNamara will be driven by car to Tula, in order for her to attend the luncheon at Xicuco.

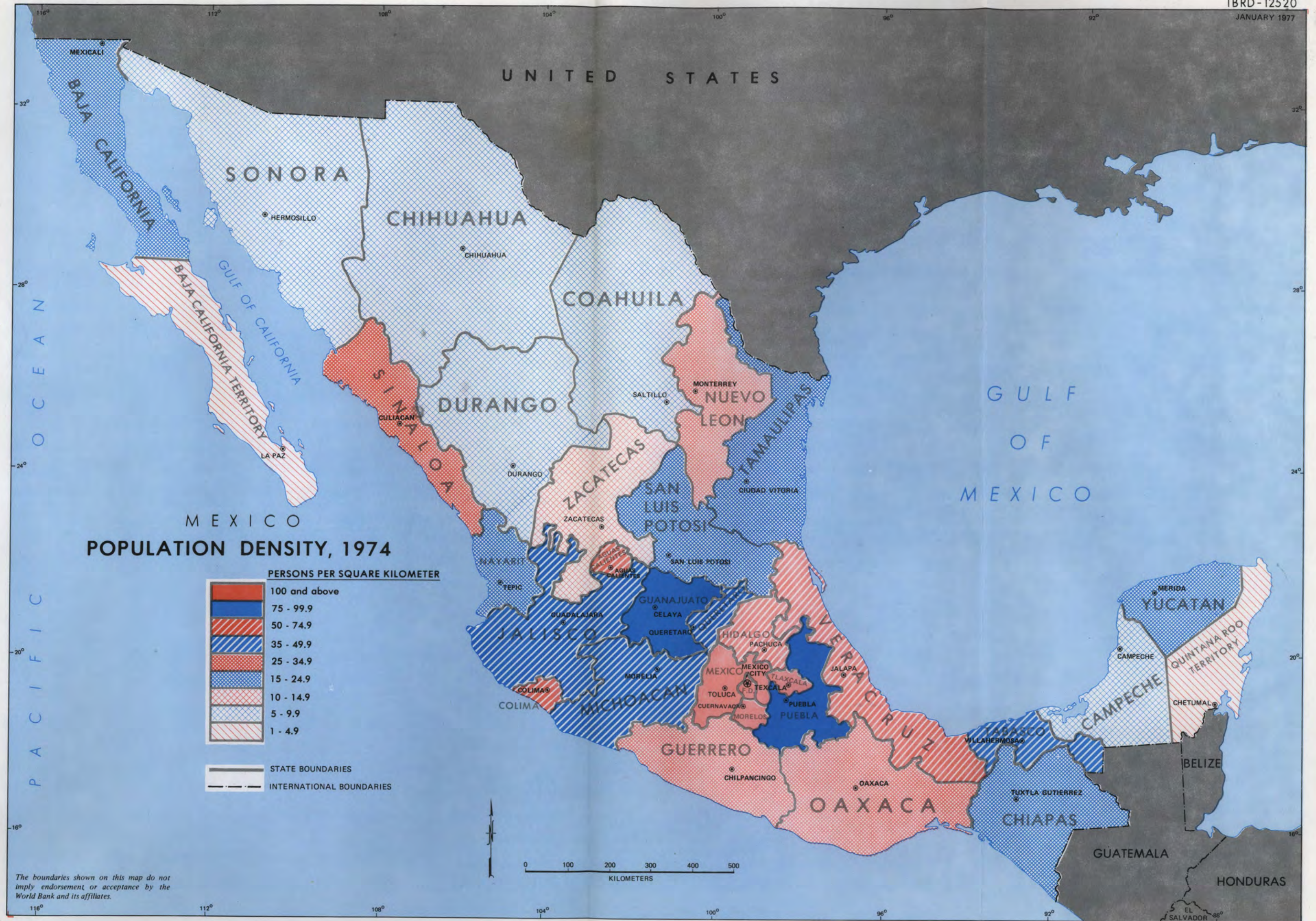
SUNDAY, JANUARY 21:

AGUASCALIENTES

08:30 a 09:15	H	Departure from Guanajuato to Ejido Crisostomo, state of Aguascalientes.
09:15 a 09:45		Tour or Ejido Crisostomo. Three irrigarion wells.
09:45 a 10:00	H	Transfer from Ejido Crisostomo to Ejido Mon_toro.
10:00 a 10:30		Tour of Ejido Montoro. Trickle irrigation.
10:30 a 10:45	H	Transfer from Ejido Montoro to Ejido Estanque de los Jiménez No.1.
10:45 a 11:15		Tour of Ejido Estanque de los Jiménez No.1.
11:15 a 11:45/12		Visit to the FAIR of the state of Guanajuato. Hog breeding station-shoe factory
14:00		Departure form Leon to Houston.

Mr. Nicolas Arditto Barletta and some members of his party will come back to Mexico City in order to catch panam flight 501 bound for PANAMA CITY at 2:55 P.M.

C



CENTRAL AMERICA

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MELVILLE BELL GROSVENOR, EDITOR-IN-CHIEF

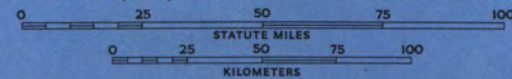
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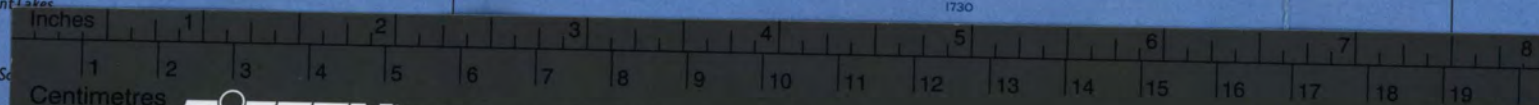
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|-----------------------------|--------------------|
| Pan American Highway System | Ruins |
| Other Roads | Reefs |
| Railroads | Swamps |
| Major Airports | Intermittent Lakes |
| Other Airports | Dry Lakes |
| Oil Fields | Elevations in Feet |
| Oil Pipelines | Depth Curves and S |



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background NOTES

Mexico

department of state * december 1977

OFFICIAL NAME: The United Mexican States

PEOPLE

Mexico is the most populous Spanish-speaking country in the world and the second most populous country in Latin America (after Brazil). More than half of the people live in central Mexico. Many Mexicans migrate from areas lacking in job opportunities—such as in the underdeveloped southern States and the crowded central plateau—to the industrializing urban centers and the developing border areas of the northern States.

Between 1960 and 1970 the population of the Federal District, which includes Mexico City, increased by 44

percent—from almost 5 million to 7 million. The northwestern region also had a sharp rise—61 percent as compared to the national average of 31 percent. Guadalajara, Monterrey, and other urban areas showed large increases as well.

Education in Mexico is decentralizing and expanding. A major attempt is underway to increase educational activity away from cities, and the increase in school enrollments over the past two decades has been dramatic. Education is mandatory from ages 6 through 14 or until the primary education is completed. Primary enrollment from 1960 through 1972 increased



from less than 5 million to 9.5 million. In 1970, nearly 70 percent of the population between 6 and 14 attended

PROFILE

People

POPULATION: 63 million (January 1977 est.) ANNUAL GROWTH RATE: 3.3% (July 1977 est.) ETHNIC GROUPS: Indian-Spanish (*mestizo*) 60%, American Indian 30%, Caucasian. RELIGION: Roman Catholic 97%. LANGUAGE: Spanish. LITERACY: 65%. EDUCATION: Mandatory ed. 6-14. Primary students as percentage of age group—72; Secondary—25. LIFE EXPECTANCY: 61 years.

Geography

AREA: 764,000 sq. mi. (1,978,750 sq. km.); one-fourth the size of continental US. CAPITAL: Mexico City (pop. 7 million, 1970). OTHER CITIES: Guadalajara (1.2 million est.), Monterrey (1 million), Puebla (500,000), Ciudad Juárez (500,000).

Government

TYPE: Federal republic. INDEPENDENCE: First proclaimed September 16,

1810; Republic established 1822. DATE OF CONSTITUTION: February 5, 1917.

BRANCHES: *Executive*—President (Chief of State and Head of Government). *Legislative*—bicameral. *Judicial*—Supreme Court, local and federal systems.

POLITICAL PARTIES: Institutional Revolutionary Party (PRI), National Action Party (PAN), Popular Socialist Party (PPS), Authentic Party of the Revolution (PARM). SUFFRAGE: Universal over 18. POLITICAL SUBDIVISIONS: 31 States and the Federal District.

FLAG: Green, white, and red vertical stripes. An eagle holding a snake in its beak and perching on a cactus is centered in the middle stripe.

Economy

GDP: \$78.6 billion (1976). GDP PER CAPITA: \$1,267 (1976).

AGRICULTURE: Land cropland 12%, pasture 40%. Labor 39.5%. Products—corn, cotton, wheat, coffee, sugarcane.

INDUSTRY: Labor 33.5%. Products—food processing, chemicals, basic metals and metal products, petroleum products.

NATURAL RESOURCES: Petroleum, silver, copper, gold, lead, zinc, natural gas, timber.

TRADE: Exports—\$3.3 billion (f.o.b. 1975): coffee, cotton, tomatoes, fruits, and vegetables, petroleum, sulfur. Imports—\$6.6 billion (c.i.f. 1975): machinery, equipment, industrial vehicles, and intermediate goods. Partners—US 60%, European Communities (EC), Japan.

OFFICIAL EXCHANGE RATE: 22.9 pesos=US\$1 (July 1977), rate is floating.

ECONOMIC AID RECEIVED: International Organizations (FY46-75), \$3.4 billion; US (FY46-75), \$1.6 billion in loans and \$164.7 million in grants.

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: UN, International Atomic Energy Agency (IAEA), International Civil Aviation Organization (ICAO), Seabeds Committee, Inter-American Defense Board (IADB), Organization of American States (OAS), Latin American Free Trade Association (LAFTA).

school. This proportion declined sharply to 25 percent of the 15 to 19 age group. However, according to some sources, enrollments at the middle education level have quintupled since 1955. Estimates of such increases suggest that enrollments will increase from 1.4 million in 1972 to as many as 2.5 million by 1980. The proportion of the 20 to 24 age group attending school dropped to 4.3 percent. Between 1959 and 1973, enrollments in institutions of higher learning increased from 62,000 to 307,000.

At the heart of Mexican cultural expression is its history and its quest for national identity. Contemporary artists, architects, writers, musicians, and dancers continue to draw for their inspiration upon a rich history of Indian civilization, colonial influence, revolution, and the development of the modern Mexican state. Artists and intellectuals alike emphasize the problems of social relations in a context of national and revolutionary traditions.

HISTORY

An advanced Indian civilization existed in Mexico prior to the Spanish conquest of the area. Major Indian cultures included the Olmec, the Maya, the Toltec, and the Aztec. Hernan Cortés conquered Mexico in 1519-21 and founded a Spanish colony which lasted nearly 300 years. Independence from Spain was proclaimed by Father Miguel Hidalgo on September 16, 1810, and the Republic was established on December 6, 1822. Prominent in the War for Independence were Father José María Morelos; General Agustín de Iturbide, who vanquished the Spaniards and ruled as Emperor for a short period; and Gen. Antonio López de Santa Ana, who controlled Mexican politics from 1833 to 1855.

Santa Ana was Mexico's leader during the conflict with Texas, which declared itself independent from Mexico in 1836, and during the war with the United States, declared in 1846. The Presidential terms of Benito Juárez (1858-71) were interrupted by the period of the Empire. Archduke Maximilian of Austria, who was established as Emperor of Mexico in 1865 by Napoleon III of France, was deposed by Juárez and executed in 1867.

Gen. Porfirio Díaz was President during most of the period between 1877 and 1910.

Mexico's drastic social and economic problems finally erupted in the Revolution of 1910. Prominent leaders in this revolution—some were rivals for power—were Francisco I. Madero, Venustiano Carranza, Pancho Villa, and Emiliano Zapata. The Revolutionary Party, under various names and after a number of reorganizations (now known as the *Partido Revolucionario Institucional*—PRI), continues to be the most important political force in the nation.

GEOGRAPHY

The topography of Mexico ranges from low desert plains and jungle-like coastal strips to high plateaus and rugged mountains. Beginning at the Isthmus of Tehuantepec in southern Mexico, an extension of a South American mountain range runs north almost to Mexico City, where it divides to form the coastal Occidental (west) and Oriental (east) ranges of the Sierra Madre. Between these ranges lies the great central plateau, a rugged tableland 1,500 miles (2,400 km.) long and as much as 500 miles (800 km.) wide. From a low desert plain in the north, it rises to 8,000 feet (2,400 m.) above sea level near Mexico City.

Mexico's climate is generally more closely related to altitude and rainfall than to latitude. Most of Mexico is dry; only about 12 percent of the total area receives adequate rainfall in all seasons, while about half is deficient in moisture throughout the year. Temperatures range from tropical in the coastal lowlands to cool in the higher elevations.

GOVERNMENT

The Constitution of 1917 provides for a federal republic with a separation of powers into independent executive, legislative, and judicial branches of government.

The executive branch is dominant. Executive power is vested in the President, who promulgates and executes the laws of the Congress. The Executive also legislates by executive decree in certain economic and financial

TRAVEL NOTES

Climate and Clothing—The high plateau area around Guadalajara and Mexico City is springlike throughout the year, a bit cooler in winter, and a little warmer in summer. The Gulf Coast is tropical. The Yucatan Peninsula, the area around Monterrey, and the US border areas are very hot in summer and pleasant in winter. Business suits for men and street dresses or pantsuits for women are appropriate in the cities.

Customs—A tourist card is required. A smallpox vaccination certificate is not required provided travel is not beyond Mexico.

Health—Cooked food is safe for consumption; raw vegetables and tap water often are not. Medical facilities in the larger cities are good. A leisurely pace is recommended for the first few days in the higher altitudes.

Telecommunications—Long-distance telephone and telegraph service to major cities is good.

Transportation—Direct international air service from many US airports is available to Mexico City, Mérida, Guadalajara, Monterrey, and other points. Bus service within Mexico is good, and the highway system is extensive. Auto rental also is available.

Tourism—Tourism is Mexico's "industry without chimneys." Approximately 3 million tourists visit Mexico annually and about 90 percent of them are US citizens. Among the richest archeological sites are Teotihuacan (with its famous pyramids) and Tula near Mexico City, Monte Alban and Palenque in the South, and Chichen Itza and Uxmal in the Yucatan. The National Museum of Anthropology in Mexico City is one of the finest in the world. Other important museums include the Colonial Museum in Tepozotlan, Chapultepec Castle, and the Museum of La Venta at Villahermosa, Tabasco. The major coastal resorts are Acapulco, Puerto Vallarta, Cozumel, and Cancun.

fields, using powers delegated from the Congress. He is elected by universal adult suffrage for a 6-year term and may not hold office a second time. There is no Vice President; in case of the removal or death of the President, a provisional President is elected by the Senate.

READING LIST

* These titles are provided as a general indication of the material available on this country. The Department of State does not endorse unofficial publications.

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Congress is composed of a Senate and a Chamber of Deputies. Consecutive reelection to the Congress is prohibited. Sixty-four Senators (two from each State and the Federal District) are elected to 6-year terms. The Chamber of Deputies has 194 Members representing districts on the basis of proportional representation and 37 at-large seats. Minority parties receiving a minimum of 1.5 percent of the popular vote in federal elections are entitled, in addition to seats won outright, to 5 at-large seats in the Chamber of Deputies plus 1 seat for each additional 0.5 percent of the votes polled, up to a maximum of 25 seats for each party. Deputies serve 3-year terms. The Mexican Congress is empowered to legislate on all matters pertaining to the National Government.

The judicial system consists of local and federal courts and a Supreme Court. Supreme Court Justices are appointed by the President and approved by the Senate.

Mexico has 31 States and a Federal District. Each State is headed by an elected Governor. Powers not expressly vested in the Federal Government are reserved to the States, but the powers of Mexican States are much less extensive than in the United States.

Principal Government Officials

President—José **López Portillo**
 Foreign Relations—Santiago **Roel Garcia**
 National Defense—Gen. Felix **Galvan López**
 Navy—Adm. Ricardo **Chazaro** Lara
 Finance (Hacienda)—David **Ibarra**
 Programming and Budget—Ricardo **Garcia Saenz**
 Patrimony and Industrial Development—José Andres **de Oteyza**
 Commerce—Fernando **Solana**
 Agriculture and Water Resources—Francisco **Merino** Rabago
 Communications and Transportation—Emilio **Mujica** Montoya
 Human Settlements and Public Works—Pedro **Ramírez** Vásquez
 Public Education—Porfirio **Muñoz** Ledo
 Health and Welfare—Dr. Emilio **Martínez** Manatou
 Interior (Gobernacion)—Jesús **Reyes** Heroles
 Labor and Social Welfare—Pedro **Ojeda** Paullada
 Agrarian Reform—Jorge **Rojo** Lugo
 Tourism—Guillermo **Rosell** de la Lama
 Fisheries, Department of—Fernando **Rafful**
 Federal District, Department of—Carlos **Hank** Gonzales
 Attorney General, Office of the—Oscar **Flores** Sanchez
 Ambassador to the U.S.—Hugo B. **Margain**
 Ambassador to the U.N.—Roberto de **Rosensweig-Díaz**
 Ambassador to the O.A.S.—Rafael de **la Colina**

Mexico maintains an Embassy in the United States at 2829-16th St. NW., Washington, D.C. 20009 (tel.

202-234-6000). There are also Consulates General at Los Angeles, San Francisco, Chicago, New Orleans, El Paso, New York, and San Antonio, and Consulates (partial listing) at Denver, Miami, Boston, Detroit, St. Louis, Philadelphia, and Dallas.

POLITICAL CONDITIONS

Mexico's current President is José López Portillo, who was elected in July 1976 and assumed office on December 1 at a time when the Mexican economy was going through a confused and difficult period. His inaugural address set the basis for a revival of confidence in the country's future. López Portillo is a lawyer, university professor, and former Secretary of Finance.

The *Partido Revolucionario Institucional* (PRI)—Institutional Revolutionary Party—has been the dominant political force in Mexico since 1929; not only all of its Presidential candidates but almost all of its candidates for congressional and State offices have been elected. Its members currently hold all Senate seats and 189 seats in the Chamber of Deputies. The PRI's success at the polls generally is attributed to an effective grassroots political organization and an ability to identify itself with the aspirations of the Mexican people for economic and social progress. PRI membership is taken from labor, agrarian, and popular groups, from which candidates for elective office are selected.

The PRI faces several opposition parties, but they are small and generally ineffective. Marxist opposition exists but is badly split by internal differences. The principal party to the right of the PRI is the *Partido de Acción Nacional* (PAN). It was the only minority party to run a Presidential candidate in the 1970 election, but it did not field a candidate in 1976.

ECONOMY

The growth of the Mexican economy since 1950 has been impressive; however, currently the economy is experiencing difficulties. A series of economic distortions has developed over the past 5 years that will have to be

eliminated before a high rate of economic growth can be renewed. Among these distortions were an over-valued currency and large deficits in the balance-of-payments and the public-sector budget. The decision to float the peso (September 1, 1976) reflected the need to deal with these distortions, but at the same time, it sparked confusion among the public. After years of having been assured that the peso would not be devalued, the Mexican public was uncertain as to what to expect next. Unfounded rumors swept the country, causing serious runs on banks. Business was affected and the ongoing economic slowdown was deepened.

When José López Portillo assumed the Presidency on December 1, relations between the government and the private sector improved. The capital flight now appears to have ceased, and funds are gradually flowing back into the banks. The worse part of the economic and confidence crisis appears to be over, but restoration of financial stability and resumption of Mexico's traditionally high growth rate will take time. The new administration is grappling with the problem of how to restore financial stability without unduly affecting the living standards of lower income groups. Mexico's un- and under-employed were recently estimated to be 49 percent of the economically active population.

Agriculture

Mexico has nearly completed the first phase of the agrarian reform begun more than 50 years ago, and almost all available land has been distributed. However, raising the productivity and living standards of subsistence farmers has proved difficult. About three-fourths of all crop sales are made by 15 percent of the farmers, with the remaining farmers living on a subsistence level. The Government is trying to encourage these subsistence farmers to form cooperatives in order to make better use of credit and extension services. The Government is also moving to settle the problems arising from land expropriations in the closing months of the previous administration. Self-sufficiency in basic crops such as corn and beans is being stressed, but emphasis is also given to export crops

such as coffee, tomatoes, and winter vegetables.

Mexico's agriculture is susceptible to adverse weather, and in poor years, significant amounts of corn and wheat must be imported. High export prices and favorable weather conditions in 1976 made coffee Mexico's most valuable export.

Mineral Resources

Mexico is rich in mineral resources, and mineral exports are an important element in foreign trade. A leading producer of silver, sulfur, lead, and zinc, Mexico also produces gold, copper, manganese, coal, and iron ore. The discovery of extensive new oil fields in the Chiapas-Tabasco area and in Baja California enabled Mexico to become self-sufficient in crude oil in 1974 and to export increasing amounts of petroleum.

Manufacturing and Foreign Investment

Mexican industrial development has been led by advances in manufacturing, increases in output, and diversification and integration of processes. Manufactures now account for more than one-fourth of the GDP. Important gains have been made in the production of cement, aluminum, artificial fibers, chemicals, fertilizers, petrochemicals, and paper. The chemical, fertilizer, petrochemical, and pharmaceutical industries currently show the most rapid growth. Mexico is now the world's largest supplier of hormones, producing enough to fill one-half of world demand.

A new law governing direct foreign investment in Mexico entered into force on May 9, 1973. This law requires majority Mexican ownership in all new investments except those deemed to be in the national interest by a commission established by the law. In general, the law codifies the existing laws, decrees, and regulations which previously governed the role of foreign direct investment in Mexico. The Government continues to welcome foreign private investment which complements domestic investment, especially when it brings needed new technology, helps increase exports or substitutes for imports, uses a high percentage of Mexican components, aids in the economic development of a

depressed region of the country, or is labor intensive.

Trade and Development Aid

Another factor in Mexico's development has been its success in increasing and diversifying its exports. Thirty-five years ago minerals were the leading export, accounting for 65 percent of the export value. Other resources have been developed to expand Mexico's export capacity. Manufactures, including hormones and iron and steel products, make up more than one-fourth of Mexico's exports. Other leading exports are agricultural. Imports are largely of capital goods.

Although internal savings are the principal source of gross investment, foreign financing has played a crucial supplemental role. The Mexican Government has received large credits from international lending agencies.

A significant part of investment is also achieved by foreign borrowing.

Transportation and Communications

Mexico's land transportation network is one of the most advanced in Latin America. The 20,000 miles (32,000 km.) of railroads are government owned. Tampico and Veracruz on the Gulf of Mexico are Mexico's two major ports. A number of international airlines service Mexico.

Mexico has a well-developed telecommunications system with about 3 million telephones, about 600 radio stations, and 150 television stations. It is a member of the International Telecommunications Satellite Consortium (Intelsat).

FOREIGN BUSINESS INFORMATION

For information on foreign economic trends, commercial development, production, trade regulations, and tariff rates, contact the Bureau of International Commerce, U.S. Department of Commerce, Washington, D.C. 20230. This information is also available from any of the Department of Commerce district offices located throughout the United States.

Foreign Relations

Mexico bases its foreign policy on the principles of nonintervention, self-

determination, the peaceful settlement of disputes, and the juridical equality of nations; it maintains relations with Cuba, the U.S.S.R., Vietnam, the East European countries, the People's Republic of China, and many other countries.

In the international economic field, President Echeverría proposed in May 1972 the idea of a Charter of Economic Rights and Duties of States which would define the relationships between developed and developing countries in the field of trade, investment, and financial and development assistance policy. The 1974 U.N. General Assembly approved this charter. The United States and five other industrialized countries voted against it. Although there were many provisions in it that the United States endorsed, some of them—nationalization of industries, indexation of prices, and reparations for colonialism—were not consistent with U.S. interests.

Mexico has played a leading role in the Latin American Free Trade Association (LAFTA)—an agreement between nine Latin American countries to lower tariff barriers among themselves. It also is interested in expanding its trade and investment with the Central American Common Market (CACM) members and with the Andean Group.

U.S.-Mexico Relations

Mexico and the United States have maintained close and friendly relations since 1938, when a major confrontation over the expropriation of oil holdings, was resolved.

The February 1977 visit of President López Portillo, the first foreign Head of State to meet with President Carter, illustrates the importance the United States attaches to these relations.

The United States and Mexico are cooperating in efforts to solve various problems, the most important of which are the illegal migration of Mexican workers into the United States and narcotics and dangerous drugs traffic into the United States. Economic issues sometimes arise, but they are generally resolved in an atmosphere of friendship and mutual respect.

In 1973 the two countries signed an agreement resolving the longstanding problem concerning the salinity of the Colorado River, and the U.S. Congress passed the implementing legislation in 1974.

Since 1944 the two governments, working through the International Boundary and Water Commission (IBWC), have undertaken numerous joint programs for the settlement of their problems. The Commission is engaged in positive programs for conservation of water, flood control, water quality control, settlement of boundary disputes and uncertainties, and stabilization of the river boundaries.

The United States includes the following objectives in its foreign policy with regard to Mexico:

- To maintain friendly relations and assure maximum cooperation between Mexico and the United States;
- To cooperate in the development

of a modern economy, linked with those of other hemisphere countries, including the United States, through a mutually beneficial system of trade and investment;

—To encourage active participation of U.S. private investment in the form needed for Mexico's economic growth; and

—To settle all differences in the spirit of mutual respect and neighborly understanding.

Principal U.S. Officials

Ambassador—Patrick J. Lucey
 Minister Counselor—Herbert B. Thompson
 Counselor for Political Affairs—Francis R. Starrs, Jr.
 Counselor for Economic/Commercial Affairs—William A. Hayne
 Counselor for Public Affairs (USIS)—Leonard J. Baldyga
 Counselor of Embassy for Consular Affairs and Consul General—Vernon D. McAninch
 Executive Counselor—William D. Calderhead

Consuls General

Guadalajara—J. Donald Blevins
 Hermosillo—Frederick H. Sacksteder
 Monterrey—Ruth McLendon
 Tijuana—Robert W. Kent, Jr.

Consuls

Ciudad Juárez—Franklyn E. Stevens
 Matamoros—Francis A. Arenz
 Mazatlán—Ruth S. Matthews
 Mérida—Robert S. Ashford
 Nuevo Laredo—Charles F. Brown

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BIOGRAPHICAL SKETCHES

- ✓ President Jose LOPEZ-PORTILLO
President of the United Mexican States
- ✓ Mr. David IBARRA
Secretary of Finance and Public Credit
- ✓ Mr. Ricardo GARCIA-SAINZ
Secretary of Programming and Budgeting
- ✓ Mr. Jose Andres de OTEYZA
Secretary of National Property and Industrial
Promotion
- ✓ Mr. Francisco MERINO RABAGO
Secretary of Agriculture and Water Resources
(SARH)
- ✓ Mr. Pedro RAMIREZ VASQUEZ
Secretary of Human Settlements and Public Works

Other important officials:

Mr. Everardo ESPINO, Director General, BANRURAL
(National Rural Credit Bank)

Mr. Leandro ROVIROSA WADE, Governor of the State
of Tabasco

Mr. Americo VILLAREAL, Subsecretary of Hydraulic
Infrastructure (SARH)

Mr. Horacio GARCIA AGUILAR, Director, Agricultural
Trust Funds of the Bank of Mexico (FIRA)

Mr. Gustavo ROMERO-KOLBECK, Director General of
the Bank of Mexico (Central Bank)

Mr. Jorge ESPINOSA de los Reyes, Director General
of Nacional Financiera, S. A.

Prof. Enrique OLIVARES SANTANA, Director of the
Banco Nacional de Obras y Servicios Publicos

Mr. Miguel BE LA MADRID, Subsecretary of Finance
and Public Credit

Mr. Jesus SILVA-HERZOG, Director of Credit,
Secretary of Finance and Public Credit

Alfred Phillips 156 & DC

November 1978

MEXICO (Capital: México, D.F.)

- * President..... Licenciado José López Portillo
Predecessor: Licenciado Luis Echevarría Al-
varez
- Elected..... July 5, 1976
- Assumed office..... December 1, 1976
- Term ends..... December 1, 1982

- Secretary of the Interior..... Licenciado Jesús Reyes Heróles
(Secretario de Gobernación)
- Secretary of Foreign Affairs..... Licenciado Santiago Roel
(Secretario de Relaciones Exteriores)
- Secretary of Defense..... Div. Gen. Félix Galván López
(Secretario de la Defensa Nacional)
- Secretary of the Navy..... Adm. Ricardo Cházaro Lara
(Secretario de Marina)

- * Secretary of the Treasury and Public
Credit..... Licenciado David Ibarra
(Secretario de Hacienda y Crédito Público)

- * Secretary of Program and Budget..... Licenciado Ricardo García Sáinz
(Secretario de Programación y Presupuesto)

- * Secretary of Government Properties and
Industrial Development..... Licenciado José Andrés de Oteyza
(Secretario de Patrimonio y
Fomento Industrial)

- Secretary of Commerce..... Licenciado Jorge de la Vega
(Secretario de Comercio) Domínguez

- * Secretary of Agriculture and Water
Resources..... Francisco Merino Rabago
(Secretario de Agricultura y
Recursos Hidráulicos)

- Secretary of Communications and
Transportation..... Licenciado Emilio Mujica Montoya
(Secretario de Comunicaciones y Transportes)

- * Secretary of Human Settlements and
Public Works..... Architect Pedro Ramírez Vázquez
(Secretario de Asentamientos Humanos y
Obras Públicas)

* - Persons Mr. McNamara likely to meet in Mexico City.

The other important officials he will meet are:

Mr. Espino, Governor Rovirosa Wade, Messrs. Villareal, Garcia Aguilar, Romero-Kolbeck, Espinosa de los Reyes and Olivares Santana.

(Short sketches on them follows those for Cabinet members).

November 1978

MEXICO (Continued)

Secretary of Public Education..... Licenciado Fernando Solana
(Secretario de Educación Pública) Morales

Secretary of Health and Welfare..... Dr. Emilio Martínez Manautou
(Secretario de Salubridad y Asistencia)

Secretary of Labor and Social Welfare... Licenciado Pedro Ojeda Paullada
(Secretario del Trabajo y Previsión Social)

Secretary of the Agrarian Reform..... Licenciado Jorge Rojo Lugo
(Secretario de la Reforma Agraria)

Secretary of Tourism..... Architect Guillermo Rossell de
(Secretario de Turismo) la Lama

Chief, Department of Fisheries..... Licenciado Fernando Rafful Miguel
(Jefe del Departamento de Pesca)

Chief, Department of the Federal
District..... Prof. Carlos Hank González
(Jefe del Departamento del Distrito Federal)

Attorney General..... Licenciado Oscar Flores Sánchez
(Procurador General de la República)

Attorney General of Justice of the
Federal District..... Licenciado Agustín Alanís
(Procurador General de Justicia del Fuentess
Distrito Federal)

Ambassador, Permanent Representative to the
Organization of American States..... Rafael de la Colina
Address: 2440 Massachusetts Avenue, N.W., Washington, D.C. 20008

Ambassador Extraordinary and Plenipotentiary
to the United States..... Licenciado Hugo B. Margáin
Address: 2829 Sixteenth Street, N.W., Washington, D.C. 20009

Ambassador, Permanent Representative to the
United Nations..... Licenciado Francisco Cuevas
Cancino
Address: 8 East 41st Street, New York, N.Y. 10017

José LOPEZ-PORTILLO y Pacheco
President of the United Mexican States
Biographical Notes

(38)

1. Mr. Lopez-Portillo was born on June 16, 1920 in Mexico City, but he comes from a distinguished Guadalajara family which traces its roots back 400 years to northern Spain. His father was a prominent historian. As a child, Mr. Lopez-Portillo went to state-run school with Mexico's previous president, Mr. Echeverria, with whom he also studied law at the National University at Mexico City. After graduation, Mr. Lopez-Portillo practiced and taught law as well as political science and public administration at the National University until, at the age of 39, he accepted his first post in the Government as advisor to the Secretary of Patrimony. When President Diaz-Ordaz took office in 1965, Mr. Lopez-Portillo became Director of Legal Affairs at the Secretariat of the Presidency, later rising to Undersecretary and carrying out major administrative reforms. When Mr. Echeverria assumed the Presidency, Mr. Lopez-Portillo was appointed Undersecretary of National Patrimony and in 1972 head of CFE, the Government-owned power company which at the time, was the Bank's largest borrower. After nine months in this post he was appointed Secretary of Finance, which office he resigned in early 1976 when he was selected to be the Government Party's candidate for the Presidential election.

2. Though close to ex-President Echeverria, Mr. Lopez-Portillo's style and outlook is quite different from his predecessor's. Mr. Lopez-Portillo is impatient with verbosity and rhetoric and has a down-to-earth approach to issues. He has brought a conciliatory mood to government, and quietly took steps to mend the rift between Mexico City and the private sector groups of Monterrey, which had been created by Mr. Echeverria's inflammatory speeches against business interests during his last months in office. Mr. Lopez-Portillo has the reputation of being a "technocrat" (which description he does not like) and is interested in matters concerning efficiency, organization and productivity. During his campaign, he stressed the importance of simplifying public administration to make it more efficient, and of eliminating corruption in public office. One of his first steps as President was to reorganize public administration, giving responsibility for selecting sectoral priorities and formulating policies to a few secretariats. He also transformed the Secretariat of the Presidency into the Secretariat for Planning and Budgeting and charged it with evaluating long-term investment and other programs systematically and programming them within the resource parameters established by the Secretariat of Finance and Credit. After two years in office, it is apparent that the new budgeting and programming procedures are an improvement on previous practices. The President has also taken action to reduce corruption in Government, and for the first time in living memory, officials have been jailed for improper practices.

*State Plan
descent
participation*

3. Mr. Lopez Portillo has written two novels as well as two books on political theory. He has a sense of humor and enjoys good food and wine. Classical music and physical exercise -- karate -- are two of his favorite pastimes. He understands English well, but prefers to speak in Spanish.

David IBARRA Muñoz, Secretary of Finance and Public Credit

Mr. Ibarra is an accountant, auditor and economist. He studied economics at Stanford University where he specialized in National Accounts. He was a lecturer at the National University of Mexico (UNAM) and other universities for many years, and was with the Economic Commission for Latin America from 1961 to 1973. He was named Director of the Mexico Office of ECLA in 1970. Mr. Ibarra joined Nacional Financiera in 1972, and was named Deputy Director General in the Echeverria Administration. President Lopez-Portillo made Mr. Ibarra Director General of Nacional Financiera when his Administration took office in December 1976, and Secretary of Finance and Public Credit in November 1977.

Mr. Ibarra can be characterized as a "structural" economist rather than a "monetarist." He has often expressed the view that the state no longer plays, nor should it only play, a regulating role in the economies of Latin America, but should use its power and resources to participate in the process of development to overcome structural obstacles. He can be expected to support direct Government participation in "basic" industries-- steel, petroleum, and petrochemicals--and to support "tripartite" ownership formulas, in which private Mexican investors, foreign investors and the Government participate in enterprises engaged in activities, such as capital goods production, which are considered of priority, and for which the expertise of the private sector is required. Mr. Ibarra may also be prepared to seek structural changes in the economy through price and tariff measures which may not always be consistent with conventional fiscal policies. Mr. Ibarra speaks good English.

Lic. Ricardo GARCIA-SAINZ, Secretary of Programming and Budgeting

Mr. Garcia-Sainz was born in 1930 and is a lawyer by training. He served in the Secretariat of Finance and Public Credit from 1953 to 1958, where he was chiefly concerned with revenues. He helped prepare the then new law on commercial and income taxes. He was head of a private industrial corporation (CONDUMEX) from 1958 to 1966, when he also became an official of CONCAMIN, the national association of industrial chambers of commerce, a powerful organization serving the interests of industrialists. From 1966 to 1976 he served in the Instituto Mexicano de Seguro Social (IMSS), where he became Secretary General in 1970. In 1976 he was appointed Undersecretary for Public Sector Industry at the Secretariat of National Property and Industrial Promotion, and in November 1977 he was appointed Secretary of Programming and Budgeting. Lic. Garcia-Sainz is believed to have the sympathy and support of the private sector on many issues. Mr. Garcia-Sainz's English is limited.

Jose Andres de OTEYZA, Secretary of National Property
and Industrial Promotion

At age 36, Mr. de Oteyza is perhaps the youngest member of the Cabinet. An economist by training, Mr. de Oteyza joined IEPES, the Government party institute for economic, political and social studies in 1975, where he was coordinator of the Consulting Council. He was then named Director General of Studies and Projects at his present Secretaria and served briefly as Director of the National Sugar Financiera (which is Government owned) before being named to his present post when Mr. Lopez Portillo took office.

Francisco MERINO RABAGO, Secretary of Agriculture and Water Resources (SARH). Mr. Merino worked for 30 years in public agriculture banks, most recently as head of the National Rural Credit Bank, BANRURAL, the largest public sector bank lending for agriculture in Mexico. Mr. Merino carried out a merger of three public banks that formed BANRURAL. At the beginning of the Lopez Portillo administration, Mr. Merino carried out the merger of the administratively weak Secretariat of Agriculture and Livestock, and the much more effective Secretariat of Water Resources, a difficult task which he has handled well.

Arg. Pedro RAMIREZ VASQUEZ, Secretary of Human Settlements and Public Works

Mr. Ramirez Vasquez is a noted architect. Among his best known creations are the National Museum of Anthropology, and the strikingly modern Basilica at Guadalupe both of which are noted tourist attractions. He has designed and built several public and private buildings and was President of the Society of Architects. He organized the Olympic Games in Mexico in 1968. Mr. Ramirez Vasquez is a close friend of President Lopez Portillo and helped organize his presidential campaign.

Lic. Everardo ESPINO, Director General, BANRURAL (National Rural Credit Bank). About 45, Mr. Espino holds degrees in economics, law, and business administration from Mexican institutions. Formerly a Director General at the Ministry of Finance responsible for credits to the rural sector, he was Assistant Director of IEPES, the influential Government Party institute for social, political and economic affairs, during Mr. Lopez Portillo's campaign. Mr. Espino is bright, and an able politician. In his present assignment he faces a difficult task in streamlining BANRURAL's operations, and improving the quality of its portfolio.

Ing. Leandro ROVIROSA WADE, Governor of the State of Tabasco

Ing. Rovirosa was born in Villahermosa in 1918 and had a distinguished career as a civil engineer in the private sector. He was also city planner for Mexico City, Director of Works of the Ministry of Marine, and Minister of Hydraulic Works in the Echevarria administration (1971-1976). He is well disposed to the Bank and participated in a number of negotiations and discussions with the Bank on irrigation projects while he was Minister. At the present time, Mr. Rovirosa's main concern is about the (mostly undesirable) effects of rapidly escalating investments in the petroleum industry in his State; the wage structure is being modified, inflation is higher than in other parts of the country and migration to the State is greater than it is prepared to receive. He understands English well but speaks it with some difficulty.

Ing. Americo VILLAREAL, Subsecretary of Hydraulic Infrastructure (SARH). About 45, Mr. Villareal is one of the most valuable men in SARH: a creative and critical thinker and able administrator. Before becoming Subsecretary in early 1978, he was Director General of the National Small Scale Irrigation Program. The program is notable for its effectiveness, and for its sensitivity in dealing with rural communities.

Ing. Horacio GARCIA AGUILAR, Director, Agricultural Trust Funds of the Bank of Mexico (FIRA). FIRA includes a group of second-tier banking trust funds responsible for the rediscount of agricultural and agro-industrial loans made by commercial and public banks. About 62, Mr. Garcia Aguilar has spent the majority of his professional career in the Banco de Mexico and has worked in FIRA since its founding in 1955. He became Director in 1966 and has managed the funds during a period of rapid growth accompanied by substantial improvements in their technical standards. Mr. Garcia Aguilar himself can be credited in large measure for FIRA's success. During this period, FIRA has become the largest single bank borrower in the rural sector of Mexico, with six loans totalling US\$600 million, and participations in three other Bank loans.

Gustavo ROMERO-KOLBECK, Director General of the Bank of Mexico (Central Bank)

Mr. Romero-Kolbeck studied economics at George Washington University and the Autonomous University of Mexico, where he taught for many years. In 1954 he founded the Mexican Academy of Human Sciences and has lectured in various Mexican and U.S. universities. He has also been Director of several business publications, including "Business Trends" and "Expansion." He was Mexican Ambassador to Japan from 1971 to 1973 and Director General of Nacional Financiera, S.A. from 1974 to 1976. He was named to his present post when the new administration took office. Mr. Romero-Kolbeck is considered to be an influential member of the economic team. He speaks good English and has a ready sense of humor.

Lic. ESPINOSA de los Reyes, Director General of Nacional Financiera, S.A.

Mr. Espinosa was born in 1920 and is an economist who graduated from the National University of Mexico (UNAM); he did post graduate work at both the London School of Economics and the University of Chile. He lectured at UNAM, CEMLA and other centers of advanced studies. He was in the departments of economic studies of the Banco de Mexico and Nacional Financiera from 1942 to 1953 and became Chief of the economic studies unit at the then Secretaria de la Presidencia, (now the Secretaria de Programacion y Presupuesto) in 1954. Mr. Espinosa was named Deputy Director of Public Investments at the same Secretaria in 1959 and was appointed Director of Industry in the Secretariat of Industry and Commerce the following year, a post he held up to 1961. He then became Senior Officer (Official Mayor) of the same Secretariat from 1961 to 1964, and later joined Petroleos Mexicanos as Deputy Commercial Director, a post he held up to 1976. When the present administration took office, Mr. Espinosa became Deputy General Director of the Banco de Mexico, and was named Director General of Nacional Financiera by President Lopez Portillo in November of 1977. Mr. Espinosa would like to increase Nacional Financiera's role as a promoter of industrial expansion and supports cooperation with the Bank and IFC in promoting capital goods and secondary petrochemical industries. Mr. Espinosa's English is good.

Professor Enrique OLIVARES SANTANA, Director of the Banco Nacional de Obras y Servicios Publicos

Professor^{1/} Olivares has a long political career in Mexico. He was Governor of the State of Aguascalientes and has served in several political appointments at Federal and State levels. His selection as head of BNOSP at the beginning of the Lopez Portillo administration confirms that the Government intends this institution to serve as a means of channeling domestic and foreign credit to State and Municipal Governments for civil works and other investments. Mr. Olivares is well suited to deal with, and gain the confidence of, local authorities. He speaks no English.

1/ In Mexico, this title applies to Secondary School teachers.

Mr. Miguel DE LA MADRID, Subsecretary of Finance and Public Credit

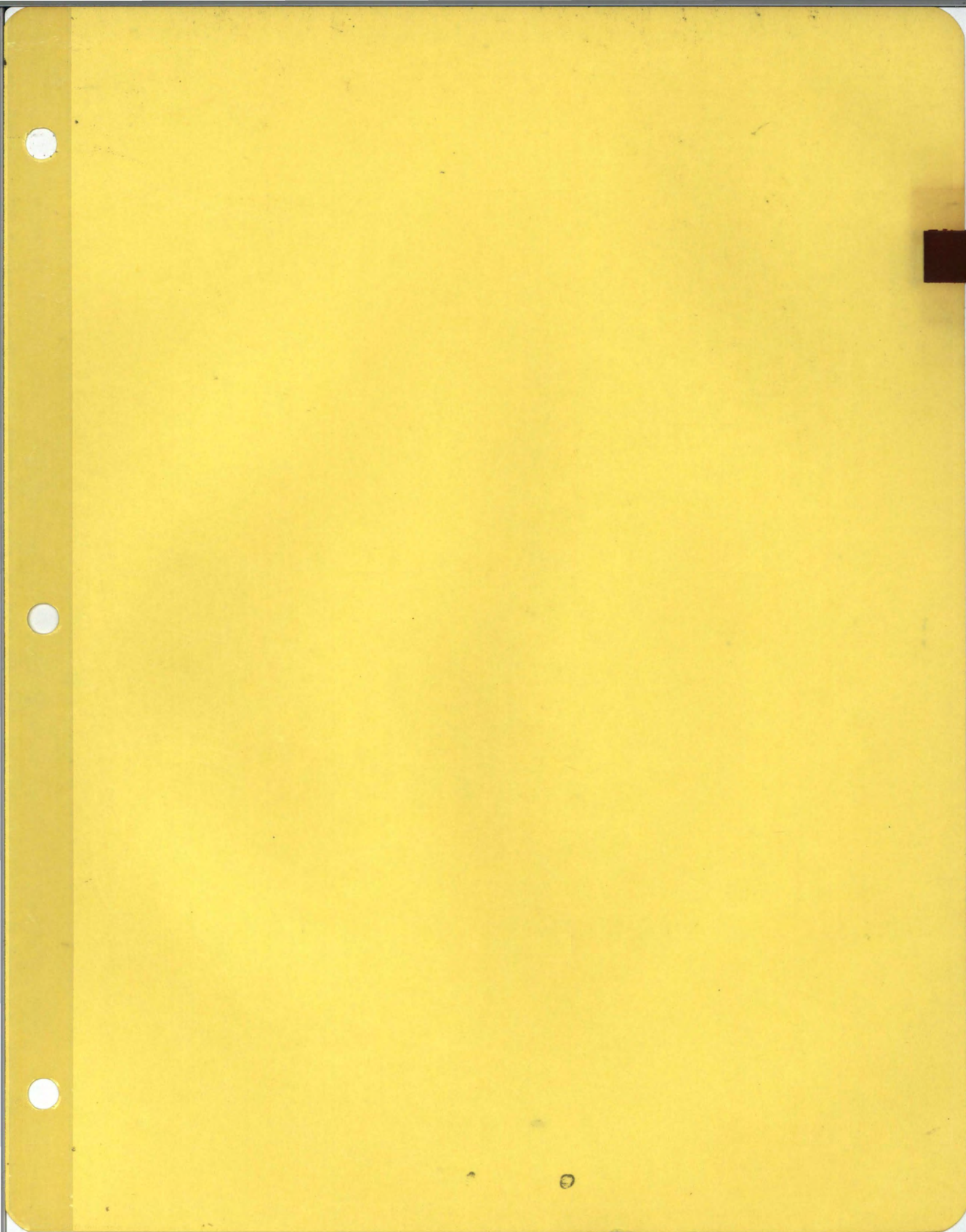
Mr. de la Madrid is a career officer at the Secretariat of Finance and Public Credit and has risen to his present position after a number of years in that Ministry and at the Bank of Mexico. Mr. de la Madrid is one of the most competent and knowledgeable officials dealing with the Bank in the Mexican Government; the Bank staff has come to value his judgement and advice on a number of occasions. Mr. de la Madrid's English is good; he normally speaks little but his observations are usually acute.

Mr. Jesus SILVA-HERZOG, Director of Credit, Secretary of Finance and Public Credit

Mr. Silva-Herzog studied economics in the National University in Mexico-- where his father was a well known professor of economics--and did post-graduate work in the United States. He started his career in the Ministry of Finance and rose to be Director of Credit in the late 1960's. He then became Director of the Government's Low-Income Housing Institute and rejoined the Secretariat of Finance in 1977 shortly after the Lopez-Portillo Administration took office. Mr. Silva-Herzog is very close to the Bank and makes many decisions on behalf of the Government which affect Bank operations. He has fond memories of Mr. McNamara's previous trip to Mexico. Mr. Silva-Herzog speaks excellent English and is by nature gregarious and frank.

RELACION DE INVITADOS A LA CENA DEL
19 DE FEBRERO DE 1979.

1. DAVID IBARRA Finance Minister
2. MIGUEL DE LA MADRID Undersecretary Finance Ministry
3. GUSTAVO ROMERO K. Central Bank President
4. LEOPOLDO SOLIS Central Bank Deputy General Director
5. ALFREDO PHILLIPS Central Bank Deputy Director
6. JORGE ESPINOSA DE LOS REYES Nacional Financiera
Director General
7. ALFONSO GARCIA MACIAS Nacional Financiera
Deputy General Director
8. PEDRO GALICIA Nacional Financiera General Manager
9. ENRIQUE OLIVARES SANTANA Banco de Obras Public works Bank
General Director
10. LUIS R. GARCIA Banco de Obras Manager Intl' Affairs
11. RAFAEL IZQUIERDO
12. RICARDO GARCIA SAINZ Secretary for Programing & Budget
13. ALFONSO CEBREROS Undersecretary
14. FRANCISCO MERINO RABAGO Minister fo Agriculture
15. AMERICO VILLARREAL Undersecretary
16. PEDRO RAMIREZ VAZQUEZ Minister for Human settlements &
Public Works
17. RODOLFO FELIX VALDES Undersecretary
18. JORGE DIAZ SERRANO Petroleos Mexicanos (Most popular Mexican
official abroad)
19. JOSE ANDRES DE OTEYZA Secretary for industrial development
20. GUILLERMO ROSELL DE LA LAMA Minister of Tourism



OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 26, 1979

FROM: Nicolas Ardito Barletta

SUBJECT: MEXICO: Meeting with Mr. Rafael Izquierdo

1. During our recent trip to Mexico we missed Mr. Rafael Izquierdo, Economic Advisor to President Lopez Portillo. Mr. Izquierdo was then in Europe and, on his way back to Mexico, came to see me today. I summarize in this memorandum two important points he has made.

2. The Mexican Government as well as PEMEX are most anxious to diversify PEMEX' export market and products. Mr. Izquierdo has negotiated with the Spanish government exports of Mexican crude oil at the rate of 100,000 - 150,000 barrels a day (about 36-54 million bbls a year, value about \$500-700 million). PEMEX would be supplying about 14% of the Spanish imports of oil. Also the Mexicans are buying 15% share in Bilbao refinery in Spain (with options to go up to 20%) which will produce gasoline and other distillates for the European market. However, PEMEX equity in the refinery is subject to clearance with Gulf oil which presently is a minority, but substantial, shareholder.

3. Mr. Izquierdo also informed me that the idea of a "fund" through which the oil money would be used in Mexico has been revived. You would recall that the proposal for an "employment fund" was given up and there were considerable disagreements within the Government on the mechanism for ensuring that the new resources are largely utilized to solve some of Mexico's fundamental problems of poverty and unemployment. Mr. Izquierdo expects that within the next six months a "Development Fund" would be set up in the Bank of Mexico. Mr. Moctezuma (the former finance minister and the gentleman who made a presentation to you on the \$7 billion industrial ports development program) would be the head of the secretariat scrutinizing projects for being financed by the fund. Most probably President Lopez Portillo would chair the committee managing the fund. Projects to be assisted by the fund would be those that generate substantial employment, or help the poor and enable Mexico to reduce income disparities. I would report to you further when details on this fund and its operations are known.

cc: Mr. Stern
Mr. Lari

DDutt:crm

MEXICO: Points for Discussion with the President
and Cabinet Members on January 19, 1979

Background

1. President Lopez Portillo has known the Bank since 1972, when as head of the power company (CFE) he visited us to resolve some of the difficult tariff issues, and takes much personal interest in the Bank. You first met him at the Annual Meeting in Nairobi in 1973, shortly after he had become Finance Minister. As President-elect he met you in Washington on September 25, 1976 and received Mr. Knapp in Mexico on October 29, 1976. You will recall your meeting with the President at Blair House on February 17, 1977, when referring to the economic and social problems of Mexico, you offered generous assistance to the Government in the country's development efforts (please see Annex I--memorandum on the meeting). Reporting on the State visit of the President, James Reston quoted Lopez Portillo in the New York Times as saying, "McNamara filled me with enthusiasm". In subsequent months he received twice the country economist for oral briefings on Bank's analysis of the Mexican economy.

2. Since President Lopez Portillo took office, there has been significant improvement in the economic management of the country. The President has introduced administrative reforms and is clamping down on corruption in high offices. Confidence of investors--foreign as well as domestic--has been restored. The President has encouraged his staff to enter into policy dialogue with the Bank and settle a multi-year program for borrowing from our institution. The Administration has effectively used the new oil discoveries for borrowings abroad at favorable terms. (For details, please see the CPP--Tab 1; notes on the economic situation--Tabs 5 through 8; and note on Bank Group operations--Tab 9 in the Briefing Book).

3. In response to a request that the President conveyed to you through his emissary, Mr. Izquierdo, a comprehensive seminar was organized in the Bank on March 30 and 31, 1978, in which over 50 staff members shared with Mexican officials Bank's experience in dealing with the issues of rural and urban poverty and unemployment (Mr. Lari's memo of April 6, 1978--Annex II, refers). In his latest meeting with you on September 22, 1978, Finance Minister David Ibarra, repeated some of the requests made earlier, and raised the possibilities of Bank's cooperation in three specific areas:

- in developing capital goods industry;
- in providing technical assistance for project preparation and evaluation for priority areas so as to improve Mexican capacity to use the oil resources wisely;
- in preparing a long-term development strategy, on the pattern of the study jointly undertaken between Mexico and the Bank in the early 1950s.

(Please see Annex III - Memorandum of September 26, 1978 on the meeting.)

4. On the first of these points, the Bank is examining a package of 3 or 4 engineering industries to be launched by NAFIN (the National Development Bank) and we hope to appraise the project in the near future. We are also discussing with NAFIN a line of credit--a DFC operation--to support smaller elements of the capital goods development program. Time permitting, Mr. Ardito-Barletta would be reviewing these and other operational issues with the Mexican officials in the coming week.

5. On the second point, we have worked out an arrangement for technical cooperation between the Bank and the Government on a continuing basis on a wide front. The arrangements are explained in Mr. Ardito-Barletta's letter of January 5, 1979 to the Finance Minister (copy at Annex IV), and a continuing dialogue on the poverty-related issues will be possible through these exchanges.

6. The third of these points, namely the joint Bank-Mexico study, has hit a snag; the Finance Minister is presently engaged in a delicate selling job to his cabinet colleagues. While you may be agreeable to respond positively if the request is repeated, the Bank should not take the initiative in proposing the study. The nationalist elements within Mexico have a resistance to explicit and visible help from outsiders in preparing a growth strategy, or in planning for the use of the oil money; the Bank could as well continue to be of assistance to the Government through its regular economic work. The latter provides us with a low profile but effective opportunity to be useful. We hope both the President and the Finance Minister would continue to be interested in our economic work.

what do we believe the major elements of the long-term strategy should be

7. Your program for Friday, January 19, 1979, includes three important meetings:

--First, you meet the Finance Minister and senior members of his team--the heads of the Bank of Mexico, the National Development Bank (NAFIN), and the National Bank for Public Works (BANOBRAS), the latter two officially designated agencies to borrow from the Bank.

--The next meeting is with the President.

--Thereafter, you meet (for about 90 minutes) jointly with the ministers for Programming and Budgeting, National Property and Industries, Public Works and Human Resources, Agriculture, and Finance.

Topics that we recommend you raise in these meetings are summarized below.

Points you may wish to raise

8. Referring to your Blair House meeting of February 17, 1977, you may congratulate President Lopez Portillo on his Administration's achievements in the last two years. Particularly impressive are the PEMEX success in the discovery and exploitation of oil, and the stated commitment of the

Government to use the new opportunity to launch a program for the alleviation of poverty. You may reassure the President on the Bank's willingness to assist Mexico as much as possible (para. 1), recapitulate our recent cooperation (paras. 3 and 5) and enquire what else the President would wish the Bank to do.

9. Mexico is fortunate in having today a strong political leadership, sensitive to the needs of the people. The President has at his disposal an exceptionally able team of financial, economic and technical experts. Unlike several of the oil countries, Mexico is not deficient in human resources and has already a well developed economic base. While the problems of poverty and unemployment accumulated over decades is staggering, the opportunities are exciting too. You may wish to reassure the President that the Bank would be willing to increase its level of lending significantly (the annual lending level of \$300 million under the Echeverria Administration could be more than doubled during the Lopez Portillo period) particularly in the poverty-directed areas.

10. The oil prospects offer two particularly worrisome temptations to the Mexican administration concerning the:

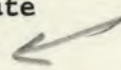
--exchange rate policy--pressures may mount to allow appreciation of the peso in real terms, and

--domestic savings effort--abundant oil money may lull the Government into relaxing efforts to reform the tax system or to introduce realistic prices for the goods and services from public enterprises.

The President, in his State of the Nation Report delivered on September 1, 1978, warned against these temptations and expressed his intention of not allowing the prospective oil income to influence a sound exchange rate policy, or to let domestic resource mobilization efforts slacken. However, for the reasons stated below the importance of action on both these fronts for sound management of the economy requires reiteration.

11. The Lopez Portillo administration has depended heavily on organized labor for success of its economic strategy; with their cooperation, wage adjustments have been below the consumer price increases in the recent years. However, the labor leaders are now under pressure from their constituents to seek full cost-of-living adjustment while the Government is hesitant to take measures that may cause prices to rise further. This may explain its caution on the exchange rate (the peso has lately appreciated somewhat against the dollar in real terms), and on pricing of goods and services from public enterprises. At the same time the Government is moving slowly on tax reforms because of the apprehension that such moves would upset the private business and discourage resumption of their investments.

12. You may wish to express the hope that the Government would continue to regard the exchange rate policy as an instrument for development, diversification of the economy and industrialization, especially for generation of greater employment and alleviation of poverty, rather than as an instrument for merely managing the balance of payments. Given expected



*But
my
disposition
with the
during
Carter
visit*

*avoid
Venezuela's
Analogue*

future inflation rates in Mexico and its trading partners, appreciation of the peso in real terms can only be avoided by a devaluation in nominal terms. Appreciation of the peso would make imports cheaper, penalize non-hydrocarbon exports and discourage employment-oriented investments. Such a course would perpetuate a dualistic economy and introduce over-dependence on oil. Similarly, the Government's reluctance or inability to increase taxes and the prices of goods and services produced by public enterprises, beside causing distortions in the economy, would lead to increased borrowing by these enterprises and eventually result in a revival of inflation, or in a reduction of public expenditures, courses of action which are likely to hurt the poor most. As a comparatively new oil country, Mexico should try to avoid the mistakes of some of the OPEC countries.

13. Your concern at the demographic trends in the country and your deep interest in success of the Government's family planning program is known to the President. Later in the day, Prof. Urquidi and some of his colleagues would be available for an in-depth discussion of this subject. When you met in Nairobi, then Minister of Finance Lopez Portillo advised you of his Government's changing position with respect to population policy, a process which has accelerated since that time. You may refer to the population policy announced by President Lopez Portillo on October 28, 1977, when he stated the objective of reducing the population growth rate of 3.4 - 3.5% in the mid-1970s to 2.5 percent by 1982 (and then progressively to 1.8% by 1988, 1.3% by 1994 and 1% by the year 2000) and wish him every success. These are difficult-to-achieve targets, and if the Government were to succeed, this would be a tremendous contribution to the art of propagating family planning techniques to the impoverished masses.

14. You would be visiting several PIDER micro regions and ejidos prior to your meeting with the President and may convey to him your own impressions. The Government has significantly increased budgetary appropriations for this program, up from Mex\$5.4 billion in 1978 to Mex\$8.8 billion in 1979. We are a little worried at the organizational changes that have recently taken place (please see Tab 12, page 5) and any interest the President may take in assuring effective stewardship of the program would be a great help. President Lopez Portillo is specially interested in administrative reforms and is keen to promote the long overdue decentralization of the Mexican administration. He has taken several important steps in strengthening the state Governors and wants to decentralize PIDER's financial and technical administration to the state officials. Responsibility for policy and operations has recently been assigned to two different units within the Ministry of Programming and Budgeting. We are concerned that the central coordination necessary to manage a decentralized program could be weakened by this bifurcation.

IDA and CGIAR (Please see Tabs 19 and 20 respectively)

15. Of the two, you may wish to concentrate on the IDA issue since the Mexican authorities may not be quite ready to become donors of aid on any significant scale.

Other Conversational Points of Mutual Interest to
President Lopez Portillo and Mr. McNamara

16. President Lopez Portillo has a deep interest in administrative reforms and has been reorganizing the ministries at the Federal level and wants to strengthen the state and local governments. On assuming office he converted the earlier Ministry of Presidential Affairs into a Ministry for Programming and Budgeting and transferred to it, from the Finance Ministry, the functions of budget and expenditure control. He merged the Ministry of Water Resources with Agriculture; added regional and urban development functions to the established Ministry of Works, this forming a "Ministry for Human Settlement and Public Works". He believes in delegation and decentralization of decision making, both rather novel for the highly centralized system of government in Mexico, holds regular meetings of the Economic Cabinet, and wants to move from ad hoc to a systematic devolution of funds in favor of the states. He should find a conversation on your own experience with reorganization and on your system of management of interest. Should the occasion arise, you may draw him out on the following aspects of administrative reforms:

- How are the administrative reforms introduced by him going? Is he satisfied with the outcome? Does he propose further changes?
- How is the decentralization policy for making the state and local governments more of partners in the development process succeeding? A success on that front would be critical for effective implementation of rural and regional development programs.
- Even before assuming the Presidency, Lopez Portillo was keenly interested in developing the humid tropics of Mexico, regarding development of this region as important for containing the growth of the resource-poor central highlands. (We made a loan in FY78 for agricultural development in the tropics). How does the President assess the chances of success of this growth pole now? Is there anything specific that the President would want the Bank to do to assist in his program for decentralized development?

Points the Mexicans may raise

17. Cost of Bank Loans: The Mexican officials have noted that the present disbursement policy of the Bank is resulting in their having to service loans in rapidly appreciating currencies which increases the real cost of Bank loans substantially. As stated in the note at Tab 9 (para. 6), the effective interest rate does appear to be high (9.5% to 10.9%), and the Executive Directors would be considering in early February a proposal for distribution of exchange rate risks among borrowers. The new system may help Mexico somewhat, but a final solution of the issue would have to await restoration of a regime of more stable exchange rates.

- Annexes I - Memorandum for Record from Mr. Krieger dated February 23, 1977
- II - Mr. Lari's memorandum of April 6, 1978
- III - Memorandum for Record from Mr. Dutt dated September 26, 1978
- IV - Mr. Ardito-Barletta's letter to Mr. David Ibarra dated January 5, 1979

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Adalbert Krieger *AK*

UBJECT: MEXICO: Meeting at Blair House Between the President of Mexico
Lic. Lopez Portillo and Mr. McNamara

DATE: February 23, 1977

A meeting was held between 8:30 and 9:30 on February 17, 1977. A list of Mexican officials attending is included in the attached annex. Mr. McNamara was accompanied by myself.

The President of Mexico opened the meeting by thanking the Bank for the support it has given to Mexico in the past and for the understanding it has shown while his country faced difficult circumstances. Mr. Lopez Portillo then explained his views, which he had expressed on several occasions during his visit, on the problems which Mexico faces. He said that Mexico must attempt to resolve problems which are inter-related; it must expand exports at the same time that it takes steps to improve the efficiency of production. This in turn is related to another important problem: unemployment. Mr. Lopez Portillo referred to his conversations with President Carter and other U.S. authorities regarding the issue of illegal immigration to the U.S. This problem could only be resolved, he said, if employment opportunities in Mexico are improved, and for this the understanding and cooperation of the U.S. is required.

In his reply, Mr. McNamara first congratulated President Lopez Portillo for the courageous steps taken by his administration during its first few weeks in office to resolve the short-term problems faced by Mexico. It is clear, he said, that the new administration had shown its determination to face the financial crisis which has affected Mexico by taking monetary and fiscal measures and obtaining the IMF's support through an Extended Fund Facility for 1977-79. Mr. McNamara then referred to longer-term economic and social prospects and to the Bank's past and future role in providing assistance to help resolve Mexico's longer term problems. Mr. McNamara assured President Lopez Portillo that the Bank is prepared to provide Mexico with as much support as possible to finance development projects. He did not wish to specify the magnitude of future lending as this would depend on the number of projects which could be identified and carried out. However, as Bank lending in the past had reached approximately US\$300 million a year, it could be expected that this volume might be increased in response to Mexico's development efforts. In order to reach a satisfactory level of lending, it would, however, be necessary to: clarify the status of some loans which had been approved recently; obtain a definition from the Mexican authorities on other loans which are being

negotiated and, more importantly, agree on a pipeline of projects for future years. The latter would be the only way of ensuring that Mexico might receive a continuous flow of financial assistance from the Bank.

Mr. McNamara said that it would be both to the Government and the Bank's advantage to obtain, as soon as practicable, the Government's decision on three signed loans (SICARTSA II, Rio Bravo Irrigation and the Highways Project). The Bank would be willing to re-examine the nature of these projects but, as Mexican officials -- including the President himself who at one time was a Governor of the Bank -- are aware, there are limitations to the flexibility with which Bank resources may be used. It is not possible for borrowers to use funds granted by the Bank for one project to finance another without first cancelling the unutilized balance available for the first project and analyzing the second independently.

Regarding the loans proposed for five new projects and for which total Bank lending amounting to about US\$250 million has been discussed (Ports II, Maternal-Child Health Care and Family Planning, Urban Development, Rural Development and Baja California Tourism) Mr. McNamara said that it would also be desirable if the Mexican authorities defined their position regarding each project as soon as practicable. He said that he did not wish to let too much time elapse without the Bank granting new loans and disbursing additional funds to Mexico, as this might be interpreted at some future time in the sense that the Bank had not provided support while Mexico was facing difficult circumstances. He suggested that it might be advisable for the Mexican authorities to establish a working group to identify and prepare new development projects which the Bank might finance.

Mr. McNamara then referred to the need for Mexico to increase its internal savings by increased taxation, by improvements in its fiscal systems and/or by adequately pricing the services which the Government provides. Mr. McNamara added that he was aware of the efforts the new administration was making to reduce the fiscal deficit to reasonable limits and that he appreciated that time was required to reach decisions on investment programs. He added that the Bank is prepared to cooperate with the Mexican authorities in analyzing public sector investments and that the authorities could count on Bank personnel for this task; a Bank mission could be sent whenever the Government thought convenient.

In Conclusion, Mr. McNamara said that, in his opinion, the oldest and most difficult problems faced by Mexico are the absence of systematic planning of public investment and scarce, and at times insufficient, fiscal revenues. If Mexico can retain the confidence of the international financial community it could resolve its short-term problems. These, however, should not distract the attention of the authorities from longer

term development problems. Mr. McNamara asked President Lopez Portillo to advise the Bank, as soon as practicable, of his Government's decisions regarding investment priorities and the projects mentioned earlier.

President Lopez Portillo thanked Mr. McNamara for the frankness of his comments and said that he had, for the first time during his visit, been placed on the defensive. There was no doubt that the Bank had clearly demonstrated its interest in helping Mexico; it was now up to the Mexican authorities to resolve pending issues and to create conditions which would make it possible to prepare a pipeline of projects. The President only referred to one of the three approved projects mentioned by Mr. McNamara; he said that SICARTSA II is being re-examined in the light of the private sector's present situation. He added that Mr. de la Madrid would continue the discussions started by the Secretary of Finance, Mr. Moctezuma, with the Bank regarding the five pending loans and the preparation of a pipeline for future loans.

There was then a brief exchange of views in which the Secretary of Tourism (Mr. Rossell de la Lama), the Secretary of Commerce (Lic. Fernando Solana) and Mr. Alfredo Phillips of the Bank of Mexico participated. The Secretary of Tourism expressed his thanks for the way the Bank had cooperated in preparing the Baja California tourism project and expressed interest in obtaining additional Bank support for a tourism credit project. Mr. Solana referred to a possible sector loan for industry and Mr. Phillips briefly sought IFC's assistance in the energy field in light of its new policies. In reply, Mr. McNamara said that it would be advisable to clarify the Bank's position from the beginning on these matters so as to avoid mistaken expectations on the Mexican side about the nature of assistance which the Bank could provide. It was agreed that Mr. de la Madrid and some of his colleagues would meet Mr. Krieger in the afternoon to discuss on which bases loans for tourism and industry might be prepared.

In closing the meeting, President Lopez Portillo thanked Mr. McNamara again for the understanding which he and the Bank had shown toward Mexico while it was facing difficult problems and assured Mr. McNamara that he had no doubts about the extraordinary good will which Bank officials had towards his country.

cc: Messrs. McNamara
Knapp
Lerdau
van der Meer
Holsen
Dutt ✓

PARTICIPANTES EN LA REUNION CELEBRADA EL
17 DE FEBRERO DE 1977 ENTRE EL PRESIDEN-
TE DE LOS ESTADOS UNIDOS MEXICANOS Y EL
PRESIDENTE DEL BANCO INTERNACIONAL DE
RECONSTRUCCION Y FOMENTO

Lugar: Blair House
Washington, D.C.

Sr. Lic. Santiago Roel	Secretario de Relaciones Exteriores
Sr. Lic. Eduardo Pesqueira	Director Ejecutivo - Banco Interna- cional de Reconstrucción y Fomento
Sr. Lic. Fernando Solana	Secretario de Comercio
Sr. Lic. José López Portillo	Presidente de los Estados Unidos Mexicanos
Sr. Lic. José Juan de Olloqui	Subsecretario de Relaciones Exteriores
Sr. José Ramón López Portillo	Hijo del Presidente de México
Sr. Lic. Antonio Enríquez Savignac	Subsecretario de Turismo
Sr. Arq. Guillermo Rossel de la Lama	Secretario de Turismo
Sr. Lic. Alfredo Phillips Olmedo	Subdirector del Banco de México, S.A.
Sr. Lic. Rafael Izquierdo	Asesor del Presidente López Portillo
Sr. Robert S. McNamara	Presidente del Banco Internacional de Reconstrucción y Fomento
Sr. Lic. Hugo B. Margáin	Embajador de México ante la Casa Blanca
Sr. Adalbert Krieger	Vicepresidente - Departamento de Latino- américa y el Caribe en el Banco Interna- cional de Reconstrucción y Fomento
Sr. Lic. Miguel De la Madrid Hurtado	Subsecretario de Hacienda y Crédito Público
Sr. Lic. Adrián Lajous Martínez	Director General del Instituto Mexicano de Comercio Exterior

The above are listed per sitting arrangements.

OFFICE MEMORANDUM

Annex II

TO: Mr. Robert S. McNamara (o/r)
(through Mr. Adalbert Krieger)

DATE: April 6, 1978

FROM: Eugenio F. Lopez Director LAC I

SUBJECT: MEXICO - Conference on Poverty-Related Policies, Programs and Projects

1. The meetings took place on March 30 and 31 under Gerry Alter's chairmanship. Mr. Krieger opened the first session (his speech is attached). The general reaction of both Mexicans and Bank staff was that the whole exercise was useful and well focussed on what the Mexicans expected from the Bank.
2. In a restricted meeting, on April 1, we discussed with the Mexicans follow-up action. The Mexicans repeated that their main goal is to design substantial programs in a number of priority sectors, aimed at alleviating Mexico's poverty and unemployment and avoiding that oil revenues be wasted or absorbed by the modern sector of the economy thus increasing the gap between rich and poor. They recognized that this is essentially their task and that the Bank could assist them effectively only to a limited extent and only in a few sectors.
3. Therefore, they suggested the following program to be carried out over the next five months:
 - (a) On their return to Mexico, they will put together several working groups that will prepare working documents covering the basic elements of the overall economic strategy and its sectoral implications. These documents should be ready in a period of two to three months.
 - (b) These working documents would be used as a base for a second round of discussions between Mexico and the Bank - to be held in Mexico - which would specifically focus on overall economic strategy, urban development, and medium and small scale industries (including small mining). The first of these discussions would deal with the overall economic strategy and could be scheduled within the next two months. The subsequent discussion, relating to sectoral and project issues, could be held in about three months. The substantial on-going Bank assistance in the rural sector would continue and hopefully intensify.
 - (c) It is expected that as a consequence of (a) and (b) a group of employment and poverty-oriented projects would be identified. For some of these projects, particularly those in the sectors mentioned at (b) above, Bank financing would be sought; others would be internally financed by the "Poverty and Employment Fund" to be created in the near future.

April 6, 1973

(d) A discussion will be held within the next four to five weeks on firming up the pipeline of projects for Bank financing in the next two years. Some new, poverty-oriented projects may be included in the lending program on that occasion.

4. Bank support was also requested in the areas of basic needs and project evaluation, in particular, of poverty-oriented projects. EDI could play a useful role by organizing, perhaps in Mexico, a course on project preparation and appraisal.

5. The Bank staff agreed to assist the Mexicans in this work program, in the sectors indicated. Visits to Mexico will be arranged in the Summer. Lic. Ceballos (Under-Secretary of Planning) was nominated by Lic. Izquierdo to be the contact person for this exercise. [This is good. He is a pivotal man in the Government and has left an excellent impression: he appears capable, decisive, and committed to translate effectively good ideas into good programs and projects.]

6. Lic. Izquierdo also made the point that it is the wish of the Mexican authorities that all bilateral issues between US and Mexico be discussed between the two countries, without the assistance of an international agency. He stressed that, to be effective, Bank financial and technical assistance, and policy advice, should be kept clearly separated from US initiatives.

JVillarzu/EFLari:nsp

cc: Mr. Knapp (o/r)
Mr. Alter
Mr. Calika
Mr. Nowicki
Mexico Division

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Memorandum for the Record
FROM: Devbrat Dutt, Division Chief, LACIA

DATE September 26, 1978

SUBJECT: MEXICO: Meeting of Mr. McNamara with the Mexican Delegation
on September 22, 1978

DECLASSIFIED

APR 10 2013

WBG ARCHIVES

1. Mr. McNamara met with Mr. David Ibarra, Finance Minister, on September 22, 1978. The Minister was accompanied by Messrs. Gustavo Romero Kolbeck (Director General of the Bank of Mexico), Jorge Espinosa de los Reyes (Director General, Nacional Financiera), Jesus Silva Herzog (Director of Public Credit in the Ministry of Finance), Pedro Galicia (Nacional Financiera), and Eduardo Pesqueira (Executive Director for Mexico). From the Bank, present were Messrs. Stern, Ardito Barletta, Lari, Holsen, Koch-Weser and Dutt.
2. Mr. Ibarra congratulated Mr. McNamara and the staff at the high quality of the World Development Report which has surveyed the development issues and prospects with great clarity. Mr. McNamara responded by stressing the importance of continued trade and capital flows for countries such as Mexico.
3. Mr. Ibarra then spoke of the recent discussions among Latin American Governors in Acapulco and sought Mr. McNamara's support for the new financial facility to promote trade in capital goods. Mr. McNamara replied that the proposal would be studied but his priorities were in securing capital increase (without such commitments by next January, Bank's lending will have to be scaled down) and replenishment of IDA VI (to enable the Bank Group to assist the poorest developing countries). Mr. Ibarra stated that the Latin American Governors proposed to support these moves during the Annual Meeting deliberations.
4. The conversation then turned to what the Bank could do for Mexico. Mr. McNamara stated that he was impressed by the wish of the Government to use the oil money for promoting economic development and said that the Bank would be willing to assist in this endeavour through its lending program and technical assistance. Mr. Ibarra replied that the Government was preparing a long-term (10-15 years) strategy for growth. Mexico would further open up its economy, increase trade and improve the competitiveness of its industries. It was important for Mexico to develop its capital goods industry. Another major objective of Mexico was to decentralize economic activity. The minister said that he would appreciate Bank's assistance in these areas, and sought technical assistance for preparing employment creating programs and projects to be financed with Mexico's oil money.

September 26, 1978

5. Mr. David Ibarra summarized his request from the Bank for assistance in the following areas:

- in developing capital goods industry;
- in providing technical assistance for project preparation and evaluation for priority areas so as to improve Mexican capacity to use the oil resources wisely;
- in preparing a long-term development strategy, on the pattern of the study jointly undertaken between Mexico and the Bank in the early 1950s.

Mr. McNamara generally supported the minister and stated that he would be pleased to help Mexico in all these areas. Mr. Ibarra thanked Mr. McNamara and said that on his return he would consult the Economic Cabinet on the joint study.

6. Mr. McNamara, referring to the unprecedented increase in labor force that Mexico would be facing in the coming years, pointed to the dangers of an appreciation of the exchange rate of the Peso, which would aggravate the dualism of the Mexican economy. He expressed the hope that the Government would be able to face up to the pressures and maintain policies that promote employment creating investments and alleviation of poverty. Mr. Ibarra agreed and explained that (a) the Government had undertaken several studies to identify investments which have a large multiplier effect on job creation, (b) relative prices of factors of production would be changed in favor of labor, and (c) supply bottlenecks were being overcome to accelerate the rate of economic growth.

7. Mr. McNamara then referred to the importance of increasing public savings to enable the Government to finance an investment program large enough for the needs of the country. Mr. Ibarra admitted that until 1976 the performance was not satisfactory, but noted that since then there had been a marked improvement and presently 70% of the total investments were being domestically financed. At 18-20% of the GNP, the coefficient for domestic savings in Mexico was not bad, better than that in USA. Mr. McNamara clarified that he was referring to Government saving and perhaps there was scope for improving the prices of publicly produced goods and services. Mr. Ibarra agreed, stating that prices for steel and electricity had already been increased, public enterprises were improving productivity, Government was limiting the growth of expenditure, and the interacting problems of prices of public goods and management of the overall economy were under study.

8. Mr. Romero Kolbeck informed Mr. McNamara that Spain had been invited to join Mexico and some other Latin American countries, and the group would now move to 4th position in voting power in the Fund and 5th position in the Bank. Mr. McNamara said that Mr. Pesqueira had done an excellent job for Mexico and the Bank, and that he would be missing him from the Board.

September 26, 1978

9. Finally, Mr. Ibarra invited Mr. McNamara to visit Mexico in the near future and Mr. McNamara accepted the invitation, suggesting that his staff would check with the Mexicans and work out a date by the end of October. The visit would take place on mutually convenient dates, probably in December 1978 or January 1979.

Cleared with and cc: Mr. Lari

cc: Messrs. McNamara
Stern
Ardito Barletta
Holsen
Nowicki
Koch-Weser

Division IA

DDutt:crm

January 5, 1979

Lic. David Ibarra
Secretario
Secretario de Hacienda y Credito Publico
Palacio Nacional 3er piso
Mexico 1, D. F.
Mexico

Dear Mr. Minister,

Over the year we have followed with great interest your Government's efforts to improve its capacity to prepare, analyze and implement projects and programs in support of poverty alleviation, employment creation, reduction of income disparities, promotion of agricultural production and spatial dispersion of the economy. We noted from President Lopez Portillo's address of September 1, 1978 that the Government would be making proposals on use of the oil money to correct the structural imbalances of the economy and to mitigate the basic socio economic problems of the country. During the Annual Meeting, you had requested Mr. McNamara to arrange technical cooperation from the Bank for project preparation and evaluation in these priority areas. I am pleased to inform you, Mr. Minister, that we would be happy to develop further our special relationship with Mexico, sharing with you our experience and analysis of the anti-poverty and employment oriented programs in other countries. I broadly present below the steps that would be appropriate for such collaboration:

1. In March 1978 we met with several of your colleagues to explain Bank's experience with poverty related projects. We would be willing to repeat similar seminars in the future, concentrating on specific topics of your interest, and such seminars could be held in Mexico or in Washington, at mutually convenient dates.

2. Bank's operations in Mexico in the coming years would include several projects related to integrated rural and urban development, employment creation, increasing productivity and income of small landholders and ejidatarios. I am asking the Bank staff to work closely with your colleagues in designing and evaluating such projects. I hope the experience gained during preparation and implementation of those projects would be of benefit to both of us. I look forward, in particular, to our joint efforts in designing and mounting a meaningful PIDER III project in the coming months.

3. CECADE (El Centro de Capacitacion para el Desarrollo), a Mexican training institution, and EDI have agreed on a program for exchange of teaching materials, of visiting lecturers, and in organizing specialized courses on project preparation and analysis in the agriculture and rural development sectors. (These arrangements are explained in Mr. Lari's letter of November 9 addressed to Mr. Cebberos, copy attached.)

4. Suitable Bank staff would visit Mexico to present and discuss relevant Bank documents on financial and economic analyses of projects, on project appraisal techniques, and on institution building objectives.

5. The Bank would be willing to receive a small number of selected officials from the Government and its agencies to work in Projects Divisions to gain experience in project analysis. By way of example, a financial analyst, or tariff expert, could work in LAC Energy Division to observe how the Bank identifies key financial and economic issues connected with power projects and tries to resolve them.

6. Mexican officials may wish to visit some selected Bank assisted projects. We would be happy to assist in transfer of experience from selected projects to Mexican officials.

7. For some selected topics (example: spatial dispersion of economic activities) Bank staff may serve on a task force, or act as a brains trust. Periodically Mexican plans and programs would be circulated to them, and their views on the policy as well as investment issues invited. The Government could invite members of this panel to Mexico periodically to attend seminars or conferences on their regional development programs. Some of the Government's investment proposals may end up being financed by the Bank, but Bank's association on a much wider policy/investment front would already and more broadly be secured through these exchanges.

8. Operations Evaluations Department (OED) of the Bank may assist in post-project-completion evaluations. Mr. Weiner, the Director General of OED, had a preliminary discussion with Mexican officials on November 7-11, and a follow-up is proposed over the coming months.

I shall be grateful, Mr. Minister, if you would please let me know whether these proposals are acceptable to you and meet your wishes. I would suggest for your consideration that the Government nominate suitable officials who would be responsible for coordinating the technical cooperation arrangements in Mexico on the schemes summarized above--or modified according to your suggestions--and with whom my staff may work out the details of a program covering the coming months.

With warm regards and best wishes for the New Year,

Yours sincerely,

Nicolás Ardito Barletta
Regional Vice President
Latin America and the Caribbean

cc: Lic. Rafael Izquierdo
Lic. Alfonso Cebros
Ing. Fernando Hiriart
Lic. Jesus Silva Herzog

MEXICO: Mr. McNamara's Meeting with Cabinet
Members on Friday, January 19, 1979

The Ministers for Programming and Budgeting (SPP), Finance, Government Property and Industrial Development (SEPAFIN), Agriculture, and Human Settlements and Public Works (SAHOP) will be meeting you jointly for about 75 minutes on January 19. A suggested list of points for discussion is presented below:

1. Importance of medium and long-term strategy for growth. Who in Mexico is preparing this? Would the Government want the Bank to be of any assistance? (Background materials are in Tabs G-5, G-6, G-7 and G-8; also Tab E.)

President Lopez Portillo is interested in medium and long-term planning for development and, early in 1977, created a Ministry of Programming and Budgeting, with responsibilities for formulation of a six-year development program as well as the annual expenditure budgets. Work towards the formulation of the medium and long-term plan seems to be in its infancy, a preliminary macro-economic framework for 1978-82 has been prepared and sectoral plans for agriculture, industry and urban development have been submitted to the President and the Economic Cabinet for discussion. However, the documents available to us give the impression that these sectoral plans would need much additional work before these could serve as guidelines for policies or investment in the respective sectors. You may commend the Government for what has been done and urge on them the importance of a coherent long-term development strategy, as well as of multi-year investment programs, to be in place by the time the oil money starts flowing in.

2. Project preparation and analysis capacity should be improved so that the Government can launch a substantial poverty-related program. (The note at Tab E--para. 5 and Annex IV--indicate what the Bank is willing to do.) More generally speaking, project preparation capacity in the more traditional areas also (such as industrial projects, ports, power, irrigation) need to be strengthened if the Government expands substantially its investment program. The Ministers are likely to request for Bank's participation in the initial stages of project preparation, Bank staff will be invited to work together with Government technicians.

3. President Lopez Portillo has expressed the wish to make the public sector industrial and utility enterprises financially viable. That would require a review of the prices of goods and services produced by these enterprises. In view of our past dialogue, the Mexicans would probably take the initiative in raising this issue, explaining that because of political constraints, tariff and price increases would be gradual and hope that the Bank would understand those realities. A related issue is one of domestic resource mobilization through more effective fiscal measures; that issue would presumably come up for discussion with the Finance Minister earlier in the day.

4. What does the Government propose to do to tackle the unemployment problem? What is the rural employment strategy of the Government? Elucidation of the agroindustries program would be of interest to us.

5. What is the agricultural production strategy? Reduction of rural poverty is intertwined with acceleration of the rate of growth of the agricultural sector.

Is the Minister for Agriculture satisfied with the type of projects that are being assisted by the Bank? We would welcome a feedback and his suggestions for improving Bank programming in this sector.

Programs for improving production in rainfed areas and for extension of agriculture in the humid tropics seem important. One of the major bottlenecks presently is inadequate supply of extension workers and we recommend to the Government a program to strengthen the extension agencies.

The Minister for Agriculture may be interested to hear Mr. McNamara's impressions on the Benor experience and low cost dairy development in India.

6. What is the "basic needs" policy of the Government? (They are engaged presently in a conversation with the Bank on some pilot projects to insure nutritional, educational, housing and water supply needs in the pilot areas.)

7. The Minister for Human Settlements and Public Works (SAHOP) may be interested in explaining his ideas about regional and urban policies and areas in which he thinks the Bank could be useful. Restraint on the activities of land speculation is important for success of urban/regional development programs.

8. Do the Ministers have any suggestion for improvement of Bank's economic and sector work in the country? The officials are likely to comment appreciatively on the work currently being done, but suggest that our economic report should present a more balanced account of the Government's efforts to improve the life of the poor; they feel that a good deal of effort has gone into this area though, they admit, that it may not have been enough. We suggest that you may express an appreciation of the conscious efforts of the present and Echeverria Administrations in this difficult area, and express the hope that with the flow of oil money, they will be able to do more and effectively reduce income disparities in the Mexican society.

F

MEXICO: COUNTRY PROGRAM PAPER

Postscript

92. The Country Program Paper dated September 8, 1978 was reviewed in Mr. McNamara's office on September 20, 1978.

93. The paper was well received and the recommendations of the CPP were approved. In particular, it was agreed that the Bank should (i) encourage and assist the Mexican authorities to develop long-term strategies and investment programs to address the issues of poverty and acceleration of growth; (ii) carefully monitor their ability to improve domestic resource mobilization and avoid over-dependence on oil and increasing dualism in the economy and, (iii) provided the Mexican development effort continued to be adequate, strive to maintain and expand the current level of lending to the country.

Latin America and the Caribbean
October 18, 1978

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WBG ARCHIVES

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64-68 368
69-73 763
73 200
74 309
75 360
76 315
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78 469
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Encl

CONFIDENTIAL
REVIEW DRAFT
September 8, 1978

COUNTRY PROGRAM PAPER

MEXICO

1977 Population:	64.2 million a/		<u>FY74-78</u>	<u>FY79-83</u>	<u>FY80-84</u>
1977 per capita GNP:	\$1,110 a/	IBRD	<u>1,515.5</u>	<u>3,185.0</u>	<u>3,490.0 c/</u>
		Total	<u>1,515.5</u>	<u>3,185.0</u>	<u>3,490.0</u>
Current population growth rate:	3.5% p.a. b/	No. of loans	21	35	36
		No. of loans per mln. pop.	0.33	0.55	0.56
Current Exchange Rate:	Fluctuating around Mex\$22.75 per US\$				

Average Lending Per Capita Per Annum: Current \$ (Const. FY78 Commitment \$)

IBRD 4.72(5.32) 9.92(8.31) 10.87(8.63)

- /a World Bank Atlas, 1978 (forthcoming).
- /b Average for 1970-1975.
- /c The FY77-81 lending program proposed in this CPP compares with the program for the same period approved at the last CPP review (April 1976) as follows:

	<u>FY77-81 Lending Program</u>		<u>Percentage Change</u>
	<u>Approved</u>	<u>Proposed</u>	<u>Proposed/Approved</u>
No. of loans and credits	30	31	+3%
Current \$ million	1,935.0	2,441.5	+26%
Constant FY78 Commitment \$	1,817.2	2,246.1	+24%
Per capita per annum (Constant FY78 Commitment \$)	5.66	7.00	+24%

MEXICO - COUNTRY PROGRAM PAPER

A. Introduction ^{1/}

1. The last seven years have seen dramatic changes in the course of Mexican development. The rapid and sustained economic growth with stability, but little relief for the poorest Mexicans, which had been experienced in the earlier three decades, ended under the Echeverria Administration. By the mid-1970's Mexico was experiencing increased public sector deficits, inflation, large balance of payments deficits, and capital flight, developments which forced the authorities to abandon on September 1, 1976 the fixed exchange rate that had prevailed since 1954 and to let the peso float.

2. On December 1, 1976, President Jose Lopez Portillo took office for a six-year term. He was the only serious contender since he belongs to the PRI (the Institutional Revolutionary Party) which has dominated the political scene for about half a century now. Despite some speculations to the contrary, Mr. Echeverria--his predecessor--soon faded into the background, and President Lopez Portillo established himself as a trusted leader and able administrator. He has reiterated his predecessor's commitment to improve the living conditions of the poor, but has shown greater awareness of concomitant administrative and financial constraints. He has abandoned the rhetoric that characterized the past Administration and has called on the private sector to play a significant role in the country's development effort. He has also introduced administrative reforms, reorganizing the Federal ministries on an unprecedented scale, and is promoting delegation of financial and administrative power to the constituent state governments. The Administration is clamping down on corruption in high office, has reduced its role in monitoring the press and, while it is unlikely that PRI's monolithic dominance of the Mexican political scene will be shaken in the foreseeable future, the President has taken measures that encourage political debate and even opposition, making it possible for both right and left wing parties to participate in the political process of the country. The President has recently announced his proposal to grant amnesty to political prisoners at home and fugitives abroad.

3. When the present Administration took office, it faced a near-panic situation and serious economic problems. The Government took steps to reduce inflation, restore confidence, and improve public administration. The international banking community responded to these actions, as well as to growing awareness of Mexico's hydrocarbon resources, by continuing to meet Mexico's

^{1/} The last CPP for Mexico was dated March 26, 1976. The last grey cover economic report was March 23, 1976 ("An Updating Report on the Economy of Mexico," Report No. 1110-ME); the most recent Basic Report was June 27, 1973 (Report No. 192-ME). More recently, a comprehensive economic report was presented to the Mexican Government in December 1977 and the green cover draft is now in preparation.

foreign capital needs in spite of a debt service burden that is high by usual standards. Mexico is now coming out of a period of adjustment to the disequilibria of the mid-1970's -- inflation is slowing, economic recovery is underway, and future growth seems assured.

4. The country program was last reviewed with Mr. McNamara on April 7, 1976, and an interim program for FYs 78 and 79 was reviewed by Mr. Knapp in July 1977. In the last eighteen months intensive discussions on economic management have been held with the new Administration and broad agreement has been reached on the important issues. The Government has set up working groups to prepare borrowing programs from international agencies, and a delegation visited us on June 22 and 23, 1978 to present its medium-term borrowing program from the Bank. While Attachment 1 presents a lending program for FYs 79-84, for the moment Management approval is requested only for the years FY79 through FY81. The lending program for the other years, FYs 82-84, is essentially indicative of the sectors the Bank could usefully support; a firmer program for these years will be prepared following further discussions with the Government.

B. Country Objectives and Performance

5. The key problems that Mexico is facing are the following:

- (i) Population and Poverty. Income distribution in Mexico is uneven and many Mexican families are very poor. The estimated share of the poorest 20 percent Mexicans in total national disposable income was only 3.4 percent in 1968, while the upper 20 percent received 58.3 percent--a ratio of 17 to one. Mexico's labor force is now growing more rapidly than in the past (about 3.2 percent per year compared to 2.4 percent per year during the 1960's). The challenge of providing productive jobs for both new entrants (about 550,000 per year during 1975-80) and existing under-productive workers (6.5 million workers -- over 40 percent of the labor force) is awesome;
- (ii) Stagnation in Agriculture. Crop and livestock production in Mexico -- which had grown at 6 percent per year during 1945-1955 and 4.2 percent per year during 1955-1965 -- grew at only 2.1 percent per year during 1965-1975. This near-stagnation signals the end of the strategy in which agricultural growth came from modern farming on newly irrigated land (both privately and ejido owned), while rainfed agriculture was relatively neglected. Now the need for both increased production and income for Mexico's 2.3 million poor rural families require the adoption of new strategies;
- (iii) Regional Imbalances. The heavy concentration of people, production, and public services in the Mexico City area -- which has currently a population of about 12 million and is growing at over 5 percent each year -- and the scarcity of productive employment and services for rural Mexicans, are

challenges to urban management, economic development, and social justice. They imply diversion of some of Mexico City's future growth to other regions, as well as the gradual concentration of scattered rural populations into small towns so that basic public services could be provided more economically and productive activities would have a better chance of developing;

- (iv) Mobilization of Domestic Savings. Past failures to mobilize enough domestic resources to pay for public sector spending have left Mexico with a large foreign debt and a large public sector deficit. The increase in export revenues that is expected from petroleum and related products should alleviate the foreign debt problem and greatly ease the foreign exchange constraint. But larger domestic savings, particularly public sector savings, would be required to reduce the still high public sector deficit, compensate for the drop in foreign savings implied by the increased petroleum exports and the high external debt service burden, and provide financing for additional government programs.

Population and Poverty

6. Mexico's interrelated problems of rapid population growth and poverty are serious, and there are no quick and easy solutions to them. The relevant data from many different sources are not always in agreement, and some estimates are difficult to accept. Our knowledge of the extent of poverty in Mexico and of its multiple ramifications is still quite limited, especially since enquiry into it by the Mexicans themselves is also scant and of recent vintage. Most of our analytical efforts during the coming years -- hopefully jointly with the Mexicans -- will be aimed at understanding of complexity of Mexican poverty, its roots and possible solutions. What emerges now is far from encouraging. About 35 percent of all households -- 3.6 million families -- have incomes of less than one-third of the estimated national mean. 1/ Of these families, 2.3 million--representing 44 percent of the rural population--live in rural areas and are the core of Mexican poverty; they include about 1.5 million self-employed ejidatarios and small proprietors and 0.8 million landless agricultural workers. Other important members of the poor population are self-employed and salaried workers in manufacturing and construction.

7. The roots of the present situation lie mainly in three processes; (a) rapid population growth, especially since about 1950, with a resulting high proportion of non-workers to workers and a rapid growth in the absolute size of the labor force; (b) neglect of agricultural laborers and owners of poor land who now comprise about 2.3 million of Mexico's 10 million families; this problem is in part related to the near-stagnation of agricultural production over the last 5-10 years; (c) policies that have made capital cheap relative to labor.

1/ According to the household budget survey of 1975.

8. During the 1950's and 1960's Mexico experienced rapid demographic growth. Life expectancy increased from about 51 years in 1950 to 64 years in 1975. The decline in mortality was not offset by any fall in fertility, at least until the mid-1970's, so population grew about 3.4 percent per year during the 1960's and at about 3.5 percent from 1970 to 1975 according to official estimates.

9. Confronted with a demographic problem of such magnitude the Mexican Government shifted from neutrality regarding contraception to active advocacy of family planning in the early 1970's. In 1972, health agencies were instructed to provide information and contraceptive services. Programs to train medical and paramedical workers to dispense family planning services were initiated. With the enactment of the General Law on Population in 1974, the Mexican Government adopted a population policy as part of its program of economic and social development. By mid-1976, approximately 1.2 million women were practicing family planning under public sector programs and 600,000 were purchasing contraceptives through commercial channels. During the past 18 months, another 1.5 million acceptors were added to these numbers.

3.3 million
prac. contra?

10. While family planning in Mexico has made relatively quick progress, more remains to be done. The majority of acceptors are 35 years old or older; considerable effort must be made to increase the number of younger women covered. Moreover, efforts to date have been largely concentrated in the urban areas. This was the best place to start, but if the Government's ambitious targets are to be met, activities in rural areas will have to be expanded and this will be more difficult.

11. The current Administration has adopted an extremely ambitious goal of reducing the population growth rate to 2.5 percent per year by 1982, and progressively thereafter to 1 percent per year by the year 2000. This would result in a year 2000 population of between 95 and 101 million, depending on emigration. For Mexico to meet this goal, the birth rate would have to decline over the 1970-2000 period at a rate of 0.9 per thousand population per year, only slightly less than that in the handful of East Asian LDC's where rates have fallen most rapidly. Under still optimistic but more likely assumptions, Mexico's population will grow at about 2.9 percent per year in the 1970-80 decade. By the year 2000 the growth rate would be down to 2.2 percent, and there would be 113 million Mexicans--more than double the estimated 51 million in 1970. This projection assumes that the crude birth rate fell to 40.7 per thousand in 1975 -- which is confirmed by some sources but denied by others -- will fall to 30 per thousand by the year 2000, and that 240,000 Mexicans will emigrate every year. (This scenario differs from the WDR 1978 projection in that the latter assumed zero emigration.)

12. Labor force projections are subject to less uncertainty because there is a 15- to 20-year lag between changes in fertility and the impact of those changes on the population of working age. The labor force is expected to increase by about 3.2 percent or 550,000 people per year during 1975-80. This growth is accelerating and is projected to reach 3.4 percent per year during 1980-90. If emigration were to decrease, the rate of increase would be

correspondingly higher. The labor force will inevitably be growing very rapidly over the next several decades, at a rate virtually unprecedented in Mexico or other countries.

Poverty, Productivity and Public Policies

13. The Mexican economy is marked by a dualism. The sources of this dualism are buried deeply in Mexican history of late nineteenth century and--with some exceptions--the first several decades of our century, when the self-renewing political elite was promoting a development strategy built on high profits, low wages, low subsidized rates for public services, forced savings through inflation, regressive taxation, highly protected industry and minimum expenditures on social projects. This inevitably led to large productivity differences which perpetuated income inequality. Thus, value added per worker in agriculture is now less than one-third the national average, which in turn is about one-fourth the level prevailing in mining and petroleum. The dispersion of value added between agriculture and the most productive sector is, therefore, more than one to twelve. These sectoral averages, only partly justifiable by technical factors, hide even larger differences in productivity within sectors. Value added per worker in manufacturing varies over a range of 8 to 1 between establishments with production below 1.5 million pesos per year, and establishments producing more than 150 million pesos annually. Workers' earnings also vary widely, from an average of 7.5 thousand pesos per year in small establishments to an average of 40 thousand pesos per year in the 200 largest ones. The same duality exists in agriculture, where in 1970 7.4 percent of farms classified as "modern" produced approximately 4 times as much output per hectare, and 20 times as much per capita income, as the rest.

14. The recent and the present Mexican Government are clearly aware of these disparities, as well as of the fact that the general circumstances which made them possible in the past, have changed. The actions of Mexican administration have been always dictated by considerations of a realpolitik. Unlike in the past, the Mexican Legislative Assemblies are filled with men in their forties and fifties, and circulation of well-educated and often highly motivated men takes place within the upper levels of bureaucracy. Furthermore, social mobility is increasingly noticeable within the "have-nots" of Mexican society. "Parochial" individuals, mostly village-oriented traditionalists who are content with their isolated and passive life and who rarely make demands on the Government, are disappearing and yielding their place to "participants," who, while often ambivalent, formulate their demands and expectations and often try, through associations or interest groups, to influence economic policy decisions. 1/ It is largely the positive attitude of the latter which helped, in the past two years, to avoid upward pressures on urban wages and on guaranteed agricultural prices. It is also their anticipation that they may

1/ According to some social researchers, the share of Mexican population which is "parochial" in its orientation fell from 90 percent in the first decades of this century to 25 percent today (cf Roger D. Hansen "The Politics of Mexican Development" Johns Hopkins University Press 1974, page 184).

become beneficiaries of future growth that should, among other reasons, nudge the Government to take steps to alleviate poverty in order to avoid conflicts.

15. The present Government views its role in combating poverty as taking place in stages. During the first two years of its administration it concentrated on overcoming the crisis it inherited. This has been practically accomplished, and Mexico counts among a few countries which successfully met the IMF stabilization targets. It recently prepaid US\$236 million (out of US\$512 million) of the IMF extended facility. The next two years--which are beginning now--are viewed as a period of consolidation of the economy, of designing new policies, programs and projects, leading to an accelerated growth and a greater social justice. The Government is clearly aware that alleviation of poverty is a long process, and to be successful within the existing social framework, it has to be carefully prepared. The parameters are imposed (to quote the September 1, 1978 speech by the Mexican President) by "historical and geographical" reasons, and consist of: (a) the legal system, guaranteeing private property rights; (b) the free enterprise, free market economy, and (c) the convertibility of the peso and unrestricted exchange transfers.

16. Among the presently emerging system of Government policies--some of which are already being implemented--which are targeted on alleviation of poverty, the principal are: (a) the family planning program, (b) a steep increase in assistance to rainfed agriculture, the single largest area of Mexican poverty, through PIDER, agricultural extension and credit, (c) agglomeration of population, now spread in small rural centers, and remaining beyond the reach of essential public services, in larger, "conurban" centers, where basic needs could be better satisfied; providing incentives, infrastructure and other conditions for development of regional growth poles, mainly in the underutilized but promising Gulf regions, (d) creation of a vast vocational training system, which would quickly provide basic training to some 5 million Mexican workers, (e) a better satisfaction of housing needs of the population, through construction of 3 million dwellings by 1982, compared to 1.5 million if the historical trend continues, (f) income tax alleviation for the poor, and enforcement of tax collection--by using the existing regulations--for the richer population, (j) modernization of the vast, but obsolete, inefficient and costly, commercial intermediation system, accounting for one-fifth to one-third of the GDP and often responsible for excessively high prices to consumers of basic goods and for low prices to small-scale producers, (h) liberalization of the foreign trade system through a decision to maintain the free float of peso and through a gradual but rapid abolishment of the import licensing system, replacing it by import duties; this led to substantial re-equilibration of the factor prices for labor and capital to the advantage of the former. 1/

1/ Relative factor prices have been distorted, during the past several years (until late 1976), and capital, compared to labor wages, has been much cheaper (by one-half, according to our estimates) than it should have been in an "equilibrium" situation.

17. Some of these policies rely, for their implementation, on Bank-designed and supported projects. Some others have been influenced by the Bank's sectoral and economic studies, as well as by extensive technical discussions with the Bank staff, during which the Mexican officials provided the knowledge of institutional, sociological and political impediments, while the Bank staff shared its experience with similar programs in other countries. This dialogue promises to become more intensive in the near future. Potential impediments, capable of slowing down the implementation process, indeed exist, and range from entrenched regional bureaucracy and pressure groups, through possible skilled manpower shortages and difficulties in coordination and monitoring of complex, hitherto untried programs, to difficulties in overcoming secular working habits and location attachments of Mexican peasants and urban marginales. On the other hand, however, power of top decision makers in Mexico is concentrated and paid heed to, upper layers of bureaucracy are highly efficient, and their joint resolve to see these anti-poverty policies implemented should prove, in a longer run, to be a determinant of success.

Stagnation in Agriculture

18. Growth of agricultural crop production has been slowing over the last three decades, from a high of 7.3 per annum during 1945-55 to 1.1 percent per annum during 1965-75. This near-stagnation of production combined with the relative neglect of farmers in the rainfed areas (at least until the early 70's) and the increased availability of labor, resulted in declines in the average number of days worked, and in the drop in average annual incomes of farm workers.

19. This performance has been caused, in large part, by (a) over-emphasis of large-scale irrigation and neglect of ways to increase productivity in rainfed agriculture; (b) underpricing of irrigation water, which not only affects public revenues but also results in misallocation of resources; (c) unresolved issues of land tenure which not only reduce production potential but in some respects also constrain further land redistribution; and (d) an inappropriate structure of crop support prices, which has caused shifts to lower-value crops.

20. Past governments have traditionally chosen to carry out large-scale irrigation schemes rather than direct their efforts towards thornier areas of action, such as improving rainfed agriculture. This policy was, for a time, highly successful in increasing output, thanks to the suitability of natural resources, the relatively low complexity of projects, the competence of project beneficiaries, and substantial financial support to producers by means of low charges for inputs. Consequently, a relatively small segment of Mexican agriculture achieved rapid and steady growth. In addition to contributing to production, irrigation projects brought two other benefits: irrigation has been by far the most effective way to create new agricultural employment, and most effective land reform has taken place in new irrigation districts--no farmer owns more than 20 ha. of land and some of the most productive ejidos have been established in these districts. Conversely, the policy led to two adverse consequences: first, the momentum generated by

successful development of large irrigation schemes pushed the government beyond the limit of high return projects; and secondly, most of the basic problems of a large depressed segment of the agriculture sector were left unsolved.

21. Awareness has been growing that, through the neglect of rainfed agriculture, the full production potential of about two-thirds of Mexico's cultivated area has not being exploited, and that the income disparities between the modern and traditional sector were seriously aggravated. In the early and mid-1970's several programs were started to provide improved extension assistance, primarily to maize growing, to rainfed crop farmers (PRONDAAT), and complete development packages to low-income farmers in selected areas (PIDER, Papaloapan). As these programs were started only recently, some time must elapse before their results can be ascertained; however, their main thrust is correct. Prospects for increased output of rainfed agriculture appear highly promising, but major efforts in manpower mobilization and research, as well as capital investments in infrastructure, will be needed.

Spatial Problems

22. In thirty years, Mexico has changed from a rural country with weak economic links among its regions, to a more urbanized and geographically integrated society. The share of the population living in places of 15,000 or more inhabitants grew from 20 percent in 1940 to 45 percent in 1970. The Mexico City Federal District alone had 14 percent of the nation's people in 1975, and accounted for over 30 percent of the nation's manufacturing output, 40 percent of commerce, and over 50 percent of the nation's output of services. UN projections based on recent trends show Mexico City to become the most populous urban area in the world, with over 30 million people, by the year 2000. At the other extreme, more than one third of the population live in places of less than 2,500 inhabitants, which for the most part offer little opportunity for productive employment or public services.

23. Mexico, like most other nations, did not have until recently any explicit spatial policy, and instruments that affected spatial development have not been well-coordinated. It is only within the last two years that Mexico has moved towards establishing a stronger, coherent and explicit spatial policy. The Law of Human Settlements, adopted in June 1976, provides the legal authority for planning and implementing programs to achieve spatial goals. The stated objectives of the law are broad; the most important objectives are, on the national level, to reduce the growth of Mexico City, and to concentrate resources to develop a few promising alternative regions, as opposed to the past practice of generalized incentives. On the local level it should promote a more orderly urban growth, and implement it through public investments and land-use control. Among the poorest and least-developed regions, especially promising for economic development are: (a) the coast of the Gulf of Mexico, from Tampico to the Isthmus of Tehuantepec, and (b) the Lazaro Cardenas-Zihuatanejo region.

Mobilization of Domestic Savings

24. The major cause of Mexico's recent cycle of inflation, devaluation and economic stagnation was that the Government was spending in the early-to-mid-1970's more than it was willing or able to raise in revenues. The economy is now recovering, the exchange rate has been adjusted and the present administration exercises greater fiscal responsibility. Further improvements are still needed, however, in two areas: (a) tax reform, to increase revenues and to make the system more equitable, and (b) rationalization of prices charged for goods and services produced by public sector enterprises.

25. Federal gross tax revenues have been growing rapidly in Mexico, increasing from about 8.9 percent of GDP in 1970 to an estimated 14.5 percent in 1977. However, this ratio is still low compared to other similar LDCs, which have tax ratios of 18 to 20 percent of GDP. This is a feasible target for Mexico. Its low tax ratio disguises, on one extreme, the high tax rates on some sectors and income, 1/ and, on the other extreme, the narrow base on which rates are levied, anachronistic tax preferences to certain sectors, and extraordinarily high rates of avoidance and evasion.

26. The Government recently organized a Working Group to study ways to improve the tax system. Additional revenues from exports of petroleum and related products are expected to increase total public sector revenues substantially in the near future, but these additional resources alone would not be enough to cover (a) the already existent gap between public sector financial requirements and available non-inflationary financing, (b) the drop in foreign savings implied by the expected improvement in the balance of payments, and (c) the new programs the Government intends to launch to improve the living conditions of the poor.

27. Another major weakness of Mexico's public finances is in the subsidies implicit in prices charged by public sector enterprises and agencies for goods and services they produce. Estimated subsidies for 1977 for few main items amount to over US\$4 billion, equivalent to almost 6 percent of GDP, and roughly equal to the entire public sector deficit. About 60 percent of the subsidies are accounted for by sales of petroleum products at less than their opportunity cost. The Government is trying to rationalize and reduce these subsidies but this involves difficult decisions concerning increases in the prices of electricity, drinking water, fertilizers, and petroleum products, as well as cuts in the transfers to state governments and agricultural and transport agencies with strong political support.

28. To increase public sector savings is a task which is important not only to secure non-inflationary financing of expenditures, but also to permit the private sector to obtain the credit it needs.

1/ Personal income tax rates rise in effect to 57 percent, and the sales tax rates on sumptuary and luxury items are as high as 30 percent.

A. Future Growth and Its Financing

29. In attempting to project Mexico's growth and its external capital requirements, considerable uncertainties arise with respect to: (a) the Government's ability to increase public sector savings, (b) the likely behavior of the exchange rate, and (c) the mix between increased petroleum exports and foreign borrowing for financing Mexico's external capital requirements. The following "reasonable" assumptions correspond to our cautious expectations of future developments and form the basis of the projections found at Table 1:

- (i) Public sector savings and expenditures projections assume a modest effort to increase tax revenues--in addition to petroleum-related taxes--through reducing evasion and improving tax administration, a marked increase in PEMEX savings, a gradual revision of the prices of some of the goods and services produced by the public sector and a rapid but controlled increase of expenditures;
- (ii) The exchange rate is projected to remain constant at its present real level. While the Government explicitly declares its intention to maintain a "clean" float of the peso, a contrary evolution, consisting of an appreciation of the peso would imply increased imports, reduced non-petroleum exports, and a slowdown in GDP growth because of the already high debt service burden and the virtual impossibility to increase petroleum output above the high levels projected until 1982; and
- (iii) In choosing a long-term option of petroleum exports vs. foreign borrowing, our projections are based on a strategy consistent with two objectives: (a) rapid economic growth of Mexico's non-oil sectors, related to further opening of the economy, an increased productive efficiency, and an ability to continue to grow and to increase exports after petroleum resources are exhausted; and (b) foreign borrowing and debt service are maintained at reasonable levels, with balance of payments current account deficits kept between 2 and 3 percent of GDP and a debt-service ratio fluctuating between 25 and 30 percent. Computer simulations suggest that these two goals can be achieved.

30. Another important assumption is the expected recovery of private sector investment. Private sector investment was stagnant during 1976 and 1977. It is expected to grow by about 11 percent in real terms during 1978-1982. There is strong recent evidence suggesting that it is actually recovering. Continuation of this trend depends upon the maintenance of a favorable climate for investment, such as confidence in the Government, favorable profit prospects, continuation of the stabilization effort and availability of credit. Most of these elements are already present largely thanks to recent policy decisions and Government attitudes. A more precise definition regarding the respective roles of private and public investment is, however, still necessary.

Table 1: MACROECONOMIC PROJECTIONS

(US\$ billion and 1975 prices, unless otherwise stated)

	Projections				Growth Rates (%)		
	1977 ^{P/}	1978	1980	1982	1966-1970	1971-1976	1978-1982
GDP	82.8	88.2	105.8	123.1	6.9	5.1	8.3 ^{b/}
Population (million)	63.1	64.9	68.6	72.5	3.5	3.1	2.8
GDP/Capita (US\$)	1,312.0	1,359.0	1,542.0	1,700.0	3.3	1.9	5.4
GDY	83.5	89.1	106.6	124.3	7.0	5.2	8.3
Private Sector	9.8	10.8	13.7	16.8	6.5	4.8	11.4
Fixed Investment							
Public Sector	6.8	8.1	10.3	12.0	12.7	8.5	12.0
Fixed Investment							
Exports	5.5	6.4	11.1	12.4	3.7	2.9	17.7
Imports	6.2	7.6	10.2	13.2	7.9	4.1	16.3
Balance of Payments							
Current Account	-2007.7	-2758.1	-18.9	-1834.3	-	-	-
(US\$m, current prices)							
Terms of Trade Index	111.8	113.7	107.5	109.8	-0.3	1.6	-0.4
Inflation (GDP Deflator, Mex\$)	156.0	184.0	237.0	279.0	3.6	19.4	12.3
Investment Ratio (% of GDP)	20.1	21.4	22.7	23.4	-	-	-
National Savings Ratio (% of GDP)	17.8	18.8	23.0	22.6	-	-	-
Financial Savings (Quasi-money as % of GDP, current prices)	14.9	18.0	24.0	30.0	-	-	-
Import Ratio (% of GDP, current prices)	10.5	11.0	12.1	13.3	-	-	-
Debt Service Ratio ^{b/}	0.48	0.54	0.36	0.27	-	-	-

^{P/} Preliminary

^{a/} Debt service on public sector medium and long-term debt. Worker remittances are included as exports.

^{b/} This growth rate is predicated on the basis of a decline of the ICOR from 4.5 during 1976-78 to 2.7 during 1978-82. This, in itself, is nothing unusual, considering that the growth during the former period, revolving around 2 percent p.a. implied substantial underutilization of fixed capital. Moreover, capital investment in the latter period is partly channelled into the petroleum sector, which shows a notoriously low ICOR (0.9 for Mexico).

Public Sector Finances

31. Our projections of public sector investments (Table 2) are purposely conservative and reflect a minimum estimate of Government's intentions. Even at this minimum, investment is expected to rise at 10 percent per year in real terms. Resources will be shifted--as intended--towards the priority areas of electricity, petroleum, agriculture, and basic needs. The high priority the Government has assigned to programs aimed at alleviating the living conditions of the poor is reflected in the high share (65 percent) of welfare and social infrastructure, and agriculture and rural development capital expenditures in total non-oil investments, compared to only 46 percent in the preceding period. These growing investment expenditures would be accompanied by increased current expenditures mainly in education, health and agriculture. We project current government expenditures to rise from 11.2 percent of GDP in 1971-76 to 13.2 percent during 1977-82. Such increases over a relatively short period could exert a pressure on the public sector's absorptive capacity and may run into institutional and administrative constraints.

Table 2: MEXICO - PUBLIC SECTOR INVESTMENT, 1971-1982
(US\$ billion, 1977 prices)

	<u>1971-1976</u>		<u>1977-1982</u>		<u>Rate of Change (%)</u>
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	
Industry	12.3	37.4	28.0	48.3	127.6
- PEMEX	(5.6)	(17.0)	(17.1)	(29.5)	(205.4)
- Others	(6.7)	(20.4)	(10.9)	(18.8)	(62.7)
Welfare and Social Infrastructure	7.5	22.8	11.3	19.5	50.7 <u>a/</u>
Transport and Communications	6.9	21.0	9.3	16.1	34.8
Agriculture and Rural Development	5.2	15.8	8.1	14.0	55.8
Tourism	0.2	0.6	0.3	0.6	50.0
Administration and Defense	<u>0.8</u>	<u>2.4</u>	<u>0.9</u>	<u>1.5</u>	<u>12.5</u>
Total	<u>32.9</u>	<u>100.0</u>	<u>57.9</u>	<u>100.0</u>	<u>76.0</u>

a/ As this investment has been rather low during 1977 and 1978 - because of the implementation of stabilization policies - the expected annual investment during the remainder of the period (1979-82) is planned to grow at over 10 percent p.a. in real terms.

32. Some of the elements of capital spending during 1977-82 are the following:

- (i) Investment in social infrastructure of US\$11.3 billion, 51 percent above 1971-76 levels */, for transportation, waste collection, water and sewerage.
- (ii) School construction--US\$2.2 billion, 48 percent over 1971-76 levels */, to accommodate an increase of the school-age population by 3.5 million and to increase primary and secondary enrollment ratios to 90 and 50 percent respectively.
- (iii) Health care facilities--US\$1.9 billion, 48 percent more than provided during 1971-76 */, emphasizing clinics in rural areas.
- (iv) US\$2.7 billion for workers' housing, double the amount spent under the last administration. */

33. The projected increase (Table 3) in total public sector revenues, from 16.2 percent of GDP in 1977 to 21.6 percent in 1982, would not be enough to finance this program in a non-inflationary way. It should be noted that we are assuming a more gradual reduction of inflation than the authorities expect: the rate of inflation would fall to international levels only in 1982. A more rapid reduction of inflation would require a more stringent monetary policy.

34. The Government has reduced inflation from annual rates of about 50 percent at the end of 1976 to about 15 percent during the first half of 1978. This has been accomplished by wage restraint, price freezes of many important goods and services, a tight monetary policy, and a marked slowdown in public spending. The expected and necessary increases in public spending in the future would require corresponding increases in public revenue if inflation is not to be revived. Our estimates show that the planned revenue increases could prove insufficient. Exporting more petroleum cannot solve this problem, at least over the next 3 or 4 years, when exports are projected at their maximum, given the present and the incremental production capacity. The alternative of containing inflationary pressures by fixing the exchange rate and other prices could become self-defeating and disequilibrating. Neither is a substantial additional foreign borrowing an option over the next two or three years, as the debt service ratio and the rate of growth of imports are already high. Therefore, the binding macroeconomic constraint in the years ahead is the availability of domestic savings, in particular of public sector savings. The Mexican authorities are aware of this, but may be facing strong political pressures. The business community is strongly against tax reforms, while labor wants the exchange rate and other key prices to be fixed and expenditures increased. Considerable skill will be required on the part of the Government to resolve these conflicts. We expect that the Government would make an additional effort to close the financial gap through mobilization of additional revenues and some domestic borrowing, and we are carrying an on-going dialogue with the authorities on these issues.

*/ All in real terms, 1977 prices.

Table 3 - CONSOLIDATED PUBLIC SECTOR FINANCES, 1977-82

(% of GDP)

	1977 ^{E/}	Projections			Period Averages	
		1978	1980	1982	1971-76	1977-1982
I. Current Account						
1. Total Public Sector Revenues	16.2	16.4	21.3	21.6	13.9	19.4
a) Taxes (net)	12.1	12.3	14.7	15.4	9.6	13.8
(i) On Petroleum and related products	(1.2)	(1.4)	(2.7)	(2.7)	(0.8)	(2.2)
(ii) Others	(10.9)	(10.9)	(12.0)	(12.7)	(8.8)	(11.6)
b) Savings of Public Sector						
Enterprises	-0.1	-	2.2	1.8	-0.1	1.3
(i) PEMEX	(1.0)	(1.5)	(4.0)	(3.6)	(0.6)	(2.9)
(ii) Rest	(-1.1)	(-1.5)	(-1.8)	(-1.8)	(-0.7)	(-1.6)
c) Non-tax Revenues	4.2	4.1	4.4	4.4	4.4	4.3
2. Current Expenditures	12.8	12.1	13.5	14.0	11.2	13.2
3. Current Savings (3 = 1 - 2)	3.4	4.3	7.8	7.6	2.7	6.2
II. Capital Account						
4. Resource for Investment	3.6	4.4	8.0	7.8	2.9	6.4
a) Current Savings (Line 3)	3.4	4.3	7.8	7.6	2.7	6.2
b) Capital Revenues	0.2	0.1	0.2	0.2	0.2	0.2
5. Total Investment	8.7	9.6	10.8	10.8	8.2	10.3
a) Direct Investment	7.0	7.9	9.0	9.0	7.0	8.5
b) Indirect Investment ^{a/}	1.7	1.7	1.8	1.8	1.2	1.8
6. Capital Account Deficit (-) (6 = 4 - 5)	-5.1	-5.1	-2.8	-3.0	-5.3	-3.9
III. Financial Account						
7. Uses of Funds	8.1	7.4	5.3	5.5	7.6	6.4
a) Capital Account Deficit (+)	5.1	5.2	2.8	3.0	5.3	3.9
b) Other Deficit Financing ^{b/}	3.0	2.2	2.5	2.5	2.3	2.5
8. Sources of Funds	8.1	5.5	2.2	3.3	7.6	4.2
a) Domestic Credit	4.0	3.1	2.8	2.6	3.9	3.0
b) External Credit	4.1	2.4	-0.6	0.7	3.7	1.2
9. Financial Gap (9 = 7 - 8)	-	1.9	3.1	2.2	-	2.2

a/ Includes financial investments and extra system capital transfers.

b/ Includes the deficit financing of non-budgetary controlled public sector enterprises and the financial public sector (development bank and trust funds).

35. While projected increase in petroleum revenues and savings would not be enough to satisfy the public sector's needs, particularly before 1982, this could change if an agreement between Mexico and the USA is reached on exports of gas.

Balance of Payments and Exchange Rate Policies

36. The rich petroleum reserves discovered during the mid-1970's are an important element in Mexico's future balance of payments. As of July 31, 1978, the proven plus probable reserves were estimated at 57 billion barrels (crude equivalent) and potential reserves as high as 180-200 billion barrels. These reserves, PEMEX's ability to exploit them and the high world prices for petroleum have greatly enlarged Mexico's access to the foreign exchange necessary to service the country's large foreign debt and to pay for the imports required for economic growth.

37. Projections of petroleum, petroleum products and petrochemical exports are contained in Table 4. They imply major shifts in the trade balance, which would move from a deficit of US\$604 million in 1978 to surpluses of US\$664 million in 1979 and US\$1.2 billion by 1982. Correspondingly, the current account deficit would drop from 3.4 percent of GDP in 1978 to a low of 0.2 percent of GDP in 1980 and would be only 0.9 percent in 1982. We are projecting imports to grow by an average annual real rate of 16.3 percent between 1978-1982, which implies an overall import elasticity of about 1.9, double the historical figure of 0.9. This rapid increase in imports is predicated on the basis of (a) a gradual opening the economy, (b) the high rate of growth expected for the next five years, (c) the large public sector investments expected, especially by PEMEX and CFE, and (d) the planned program of import substitution in capital goods which will require considerable imports in its early phases.

38. The balance of payments improvements would be accompanied by a marked decline in the debt service ratio, which after peaking at 56 percent in 1978 would drop to 34 percent in 1982 and should reach a low 24 percent in 1984 if oil and related product exports (not including petrochemicals) are kept constant at their 1982 level. Total public sector debt (including short-term) would reach US\$25.8 billion in 1982, declining by 20 percent in real terms compared to its 1977 level. Notwithstanding these improvements, Mexico would remain a heavy borrower abroad: gross borrowing (including short-term) would fluctuate around US\$7 or 8 billion per year for the next four to five years.

39. This assumes that the exchange rate will remain constant in real terms. If the authorities surrender to the pressure of letting the peso appreciate in real terms, the result--among others--would be a substantially larger current account deficit and the need for more petroleum exports or for larger capital inflows. If Mexico's current high debt service ratio is not reduced, additional heavy borrowing could prove difficult, the country's hydrocarbon reserves notwithstanding.

Table: 4 - PETROLEUM AND PETROCHEMICALS EXPORTS, 1976-82

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
I. <u>Volume</u> (000' bbl/day)							
Crude Oil	94.0	202.7	344.1	446.2	845.6	782.3	813.2
Refined Products							
- Fuel Oil <u>a/</u>	-	-	-	47.7	196.2	242.5	307.9
- Others	3.0	4.4	25.0	235.6	238.4	249.3	293.2
Natural Gas <u>a/ b/</u>	-	1.0	-	67.8	67.8	67.8	67.8
Petrochemicals (tons/day)	5.0	85.0	1225.0	1244.0	2666.0	4929.0	5707.0
II. <u>Value</u> (US\$ Million; Crude Oil Equivalent) <u>c/</u>							
Crude Oil	419.3	991.4	1683.0	2346.9	4756.2	4708.6	5238.8
Refined Products	-	24.6	139.6	1620.8	2436.2	2910.5	3783.6
- Fuel Oil	(-)	(-)	(-)	(205.7)	(904.9)	(1196.9)	(1626.5)
- Others	(-)	(24.6)	(139.6)	(1415.1)	1531.3	(1713.6)	(2157.1)
Natural Gas	-	4.0	-	292.4	312.7	334.6	358.2
Sub-Total	419.3	1020.0	1822.6	4260.1	7505.1	7953.7	9380.6
Petrochemicals	0.3	8.6	124.6	136.1	311.9	617.1	764.7
Total	419.6	1028.6	1947.2	4396.2	7817.0	8570.8	10145.3

1.5 m bbl/day

Memorandum Item

Crude Oil Price	12.22	13.4	13.4	14.41	15.41	16.49	17.65
Total Exports (US\$ Million)	6529.8	7275.0	9140.7	12697.7	17236.7	19228.0	22273.9

a/ These export projections are consistent with a scenario in which domestic consumption of fuel oil is gradually replaced by natural gas and the excess fuel oil is exported. It would require the construction of an integrated gas pipeline system within Mexico so that the northern gas production area (dry gas) is linked with the southeast area (associated gas).

b/ Fuel oil equivalent.

c/ The value equivalences were estimated using PEMEX average prices for the period 1977-82, as follows:

1 bb refined product (other)	=	1.142 bb crude oil
1 bb fuel oil	=	0.82 bb crude oil
1 ton petrochemicals	=	20.8 bb crude oil

Petroleum Exports vs. Foreign Borrowing - A Long-term View

40. In the longer term the question of appropriate strategy for financing Mexico's capital needs is open. One option would be to expand PEMEX production capacity and exports to the level where the foreign exchange generated would finance most of Mexico's external requirements. Alternatively, Mexico could borrow as much as possible from the international capital markets and use the oil reserves as collateral. The decision as to where the line should be drawn between these two extremes depends upon many factors, among them Mexico's need to pursue a balanced growth strategy, the country's capacity to mobilize domestic resources, projected domestic consumption of hydrocarbon resources over time, expectations regarding the future price of these resources vis-a-vis the real cost of borrowing and market constraints. We do not have the information needed to solve this complex optimization problem. Instead, we present a mixed strategy of "reasonable" foreign borrowing plus "reasonable" petroleum exports. This is reflected in Table 5.

41. The latest analysis available to us indicates that the prices of crude oil may well increase substantially in real terms by the mid-1980's, while the real cost to Mexico of borrowing in international markets is expected to fluctuate around 2-3 percent. It is therefore to the advantage of Mexico to finance as much as possible of its external requirements through borrowing. This conclusion is reinforced by the high expected domestic consumption of hydrocarbon resources and by Mexico's need to maintain a balanced growth strategy, so as to avoid a painful adjustment process later, when domestic production of petroleum and related products will begin to decline.

Table 5: EXTERNAL CAPITAL REQUIREMENTS AND THEIR FINANCING - 1977-1982
(US\$ Million)

	1977	1978	1979	1980	1981	1982
Net Capital Inflow <u>/a</u>	2,007.7	2,753.1	1,660.8	18.9	1,405.0	1,834.3
Plus Amortization	2,461.7	3,635.9	4,293.2	4,750.8	4,574.9	4,539.9
Minus Direct Investment	437.3	679.7	781.7	875.5	980.5	1,098.2
Minus Other Capital <u>/b</u>	-2,309.8	-271.6	-289.3	-276.2	-369.4	-668.7
Equal Gross Medium and Long-term Borrowing	6,341.9	5,985.9	5,461.6	4,170.4	5,368.8	5,944.7
<u>Disbursements on:</u>						
IBRD Loans	201.9	189.9	309.9	390.3	418.1	406.1
IDB Loans	184.4	226.8	268.6	306.0	315.3	344.3
Bilateral Loans	167.6	179.9	190.0	217.3	267.9	318.6
Private Capital Markets <u>/c</u>	5,788.0	5,390.2	4,693.1	3,256.8	4,367.5	4,875.7

/a Current Account Deficit.

/b Includes changes in reserves.

/c Includes suppliers' credits and bonds.

42. Under the assumption that Mexico would be running a balance of payments' current account deficit of about 3 percent of GDP over the next 20 years, and under optimistic assumptions regarding the rates of growth of non-petroleum exports, of total imports and of domestic petroleum consumption, Mexico would have to produce between 28 and 44 billion barrels of hydrocarbon products during 1980-1999, equivalent to 50-77 percent of its presently assessed proven and probable reserves.

43. To sum up, Mexico's current income level and its need to sustain a high rate of growth and employment generation argue in favor of complementing domestic savings with external assistance. It would be to the advantage of Mexico to borrow reasonable amounts abroad, especially after it reduces its debt service ratio to lower, more acceptable levels, while, at the same time, it should engage in careful planning of the timing and of the pace of production and exports of its hydrocarbon resources.

D. Progress Toward Prior Goals

44. On reviewing the CPP in April 1976, the Management agreed to adopt a flexible stance towards operations in Mexico in order to respond to the country's needs as circumstances might require. For the last eighteen months the Government has been pursuing three major economic objectives: (i) to stabilize the economy and to bring inflationary pressures under control; (ii) to resume economic growth; and (iii) to mount an anti-poverty, employment-oriented development program.

45. Faced with the new realities of stabilization, the Government sought the Bank's cooperation in modifying several ongoing projects. Projects making substantial demands on budgetary resources were either restructured (the Highways VII and Airports project were both scaled down), or substantially reduced in scope with a corresponding reduction in the Bank loan amount (the Bajo Rio Bravo/Rio San Juan Irrigation loan of \$150 million, made in FY75, was reduced by \$100 million). For some other projects (Rio Panuco and Rio Sinaloa Irrigation projects) the implementation schedules were changed and the Bank was requested to consider supplementary loans. A loan of \$95 million for a steel expansion project was cancelled when the Government decided to postpone the whole project by several years. At the request of the previous administration, a ports loan had been processed through the Loan Committee stage, but the new Government decided to postpone the project and the loan was not negotiated.

46. Whereas it seemed likely at the time of writing the previous CPP that a Bank loan might be required to carry out a family planning project, the new administration, while committed to carrying out a vigorous family planning program throughout the country, indicated its preference to do so without recourse to financing from the Bank in view of the politically sensitive nature of this activity. The extensive work carried out by Bank staff in preparing a project to extend family planning services to rural areas where birth rates are highest is, however, being used by the authorities to carry out their own program.

47. In spite of these developments, the level of Bank lending in FY77 and FY78 combined was only slightly lower than the program suggested in the previous CPP, but the number of projects was reduced according to Management guidance during the last CPP review. Actual loans amounted to US\$631.5 million equivalent for eight projects (excluding the loan of \$95 million for a steel project which was subsequently terminated) as compared to the program of US\$700 million for twelve projects envisaged in the previous CPP. The selection of projects receiving Bank support was altered, however, to adapt the program to changed economic circumstances. The austerity program adopted by the new administration limited its capacity to provide counterpart funds through the budget. The urgency of improving Mexico's balance of payments and of stimulating economic activity in the private sector called for projects in support of entrepreneurial initiative in industry, agriculture and tourism. The Bank responded by expanding its support for credit projects in these sectors; four such loans, aggregating \$397 million, were made in FY 78.

48. To help improve the distribution of income in rural areas, support was provided to a second phase of the Integrated Rural Development Project (PIDER) and to an Agricultural and Livestock Credit Project, both of which include features to the benefit of lower income producers in rural areas. A credit project for small and medium scale industry is also expected to have a favorable impact on income distribution. Mexico's concern for a better geographical distribution of economic production and employment, was supported by two loans: Tropical Agricultural Development Project to expand the frontiers of agriculture in the sparsely populated humid tropics, and Lazaro Cardenas Regional Development Project to help the Government formulate a strategy for developing areas located away from the main urban concentrations.

E. Bank Strategy

④ 49. Mexico's problems of population, poverty, stagnant agriculture and overconcentration of economic activities around the capital and two other cities in the water-scarce central plateau are interrelated. Poverty is both the consequence and cause of high population growth. Stagnation of agriculture is further accentuating income disparities to the disadvantage of the rural population where over one half of the households are already unable to meet their basic needs. The growing disparities between life in small communities and in the three large cities have provided incentives for migration, and the problem of providing jobs to a labor force increasing at an unprecedented scale will be further aggravated if emigration outlets to the north are closed.

50. Mexico's development problems, reviewed above, are not new. What has changed are the constraints, the options available, and the views of the Government. President Lopez Portillo in his September 1978 State of the Nation message warned his countrymen that Mexico presently confronts the most important and serious crisis in its entire history. In his words "twelve months go by quickly for those on whom they weigh lightly and who enjoy life,

but how slowly and bitterly they drag for those who suffer under cruel burdens they bring. It has been a year in which we have enriched our political life-- but made no progress in redistributing wealth; a year in which we could not provide jobs for all who wanted to work; and a year, perhaps, in which some inequalities become more marked..." He called for a system where production and distribution take place simultaneously. The President announced that he would shortly submit to the Congress a proposal for handling, through separate accounts, funds obtained from export and production taxes on oil, presumably to solve some of these problems that he has so clearly identified. He has categorically ruled out use of these funds to meet populist demands, to build up foreign reserves or to prepay foreign debt; he has warned against reliance on these funds to relax tax, tariff and other budgetary policies that would have been necessary in the absence of oil surpluses.

51. Relations with the United States will have an important bearing on the growth path of Mexico. The traditionally open financial relation, with mobility of capital both ways, is expected to continue. Agreement between the two countries on sale of natural gas would have provided Mexico additional flexibility in export earnings over the medium term. The US market for Mexican manufactures and high-value agricultural crops (fruits and vegetables) is important for labor-intensive industrial and agricultural investments, and finally the US market for Mexican labor is a safety valve for the country already facing serious employment problems.

52. The other non-financial constraint that Mexico faces is in preparation and implementation of poverty related programs and projects. Mexico has a large pool of talented manpower and could train them to increase its absorptive capacity for social investments provided it has a clearer idea of what is to be done and how. It is in this area that the Government has approached the Bank for advice and support; we have exchanged our respective experiences and agreed that the Bank staff will work together with their Mexican counterparts to devise programs and projects suited to the present and future needs of the Mexican society. It is this partnership that the Mexicans seek, and we think would be the most significant contribution of the Bank to the country in its present predicaments as well as opportunities.

53. Mexico is a creditworthy client, even though her debt service ratio has been increasing over the recent past to reach 46 percent in 1977; it is expected it peak at about 54 percent in 1978. Thereafter, it is expected to decline sharply to levels of around 20-30 percent in the early 1980s, mainly as a result of the rapid expansion of petroleum exports. This comparatively high debt service ratio is more a reflection of the low level of exports relative to GNP and the high proportion of Mexican borrowing from commercial banks than it is an indication of a high level of external debt relative to the size of the economy. The commercial banks are lending to Mexico large amounts (about \$6 billion in 1978) on terms somewhat better than to other medium income developing countries.

54. In this situation, the usefulness of the Bank to Mexico depends less on the transfer of financial resources as such than on the specific features of our assistance (transfer of know-how, catalytic role, institution building),

and on the economic and technical dialogue that accompanies our lending operations. The main strategy for the Bank in Mexico in the coming years would be (i) to continue the policy dialogue for resumption of high growth with more equitable distribution of the benefits; (ii) to assist in operations leading to higher employment, alleviation of poverty, meeting of basic needs, greater spatial dispersion of economic activities; (iii) to help Mexico develop some of the newer and much needed activities in the economy such as capital goods and agro industries, developing of fisheries and forestry resources; (iv) to assist in institution building activities and in consolidating sound sectoral development policies.

55. Accordingly, even though Mexico would be borrowing abroad annually \$7-8 billion (gross) in the coming years, we are proposing Bank lending of \$1.8 billion over three years (FYs 79-81) and tentatively \$3.5 billion over the five years FYs 80-84. Debt service on Bank loans amounted to 4 percent of public debt service in 1977; this ratio is projected to decrease over the next two years and to increase afterwards. The Bank currently holds about 6.8 percent of Mexico's total medium- and long-term public debt, and this ratio is likely to increase to about 10 percent by the early 1980s. With the proposed five-year lending program, the Bank's exposure in Mexico will be somewhat reduced and Mexico's share of total IBRD debt outstanding will decline from 9 percent in FY78 to 7.7 percent by FY85.

56. Whether we will be able to achieve the lending goals fully is uncertain for several reasons. First, Mexico has easy access to commercial borrowings and financial institutions which are eager to lend to Mexico, ask less questions and attach less conditions to their loans than the Bank. Also, the processing cycle for Bank loans is longer, 18-24 months from identification of the project, and our readiness to finance local cost is limited. Moreover, we ourselves are somewhat new in areas such as basic needs, spatial problems, or pollution control and would be learning as we work on the Mexican projects. Lastly, several of the large projects, with institution building as the major objective, involve difficult pricing issues (examples: prices for fertilizer, power and railway services, water in Mexico City area) on whose resolution depends our success in processing the respective projects. We would wish to observe how, given its considerable access to commercial loans, Mexico responds to the Bank's procedures and requirements for project and sector lending.

57. The proposed lending program is consistent with our analysis of the Mexican problem as well as with the Bank's strategy in the country. The results of the exercise are summarized in table 6:

Table 6: BREAKDOWN OF DEVELOPMENT GOALS FOR FY79-81 PROJECTS 1/

Objectives	Projects for which this is the Primary objective		Projects for which this is one of the Secondary Objectives		Total 2/	
	Number (1)	Loan Amount	Number (3)	Loan Amount	Number (1)+(3)	US\$
		US\$ million (2)		US\$ million (4)		million (2)+(4)
Benefit Low Income Groups	6	345	10	730	16	1,075
Promote Agricultural Production	3	230	7	435	10	665
Create Employment	5	350	9	625	14	975
Spatial Diversification of Economic Activity	4	295	8	640	12	935
Institutional Building	4	390	9	695	13	1,085
Foreign Exchange Earnings	2	200	2	190	4	390

1/ For details, see Attachment 1A.

2/ Totals do not add up vertically, because the loan objectives overlap with each other.

58. The Mexican authorities prefer to eschew any external involvement in the area of family planning and, as noted in para. 46, have mounted a program along the lines of a project previously appraised by the Bank. We propose to study the population trends as part of our economic work on Mexico; our future operations would take into account developments in this critical area. Also our program for the outer years (FYs 82-84) would be adjusted to the policies and achievements of the administration in meeting the stated development objectives of promoting distributive growth.

59. Historically, the Bank has financed, on the average, 40-50 percent of project costs in Mexico. Our program puts a strong emphasis on socially oriented projects, many of which have a low foreign exchange component. To maintain our role in Mexico and efficiently support the Government's commitment to undertake poverty and employment oriented projects, we propose that the Bank continue financing 40-50 percent of those projects even though substantial local cost financing may be involved. Such support will be reviewed periodically in the context of Government's performance in domestic resource mobilization.

F. World Bank Program

60. Of the proposed five-year (FYs 80-84) lending of \$3,490 million in 36 projects, \$1,315 million (17 projects) are for FYs 80 and 81. At the request of the Government several projects with relatively small loan amounts are presently being processed but as the pressure on the budget eases, we would support larger projects requiring, on the average, bigger loan amounts. The program also includes five reserve projects (Mexico City Water Supply, marketing, vocational training, forest industries and a sector loan for

capital goods) which are under discussion with the Government. As the scope and specific nature of these projects and the related institutional arrangements are defined, and related issues are solved they would be moved up as regular projects in the lending program with the approval of Management. The next several paragraphs will mainly deal with the loans proposed for FYs79-81.

61. The programs for FY's 79 and 80 have some uncertainties. For FY79, US\$150 million has been proposed for Mexico City Water Supply Project (Cutzamala) which is in an advanced stage of preparation, and contracts for about 10 percent of the works have already been let. This project was originally in the lending program for FY78 and though the engineering aspects of the project were ready for appraisal, because of unresolved institutional and tariff issues, the appraisal was postponed. Little progress has been made in resolving these issues largely because of the position taken by the powerful Governor of the Federal District. If these issues are not settled in the coming months, we may have to drop this project as most of the contracts would be awarded by the year-end requiring an unusually high level of advanced contracting. Pending clarification of these issues, it is being shown as a reserve project. Similarly, the power project (FY80) for \$150 million has several unresolved issues (see para. 76) and may slip out of the year.

Economic and Sector Studies

62. The Bank's economic and sector work in Mexico was recently evaluated by Messrs. Chernick and Wright and the work program for the next five years takes into account this evaluation. In addition to regular short monitoring missions (to keep Bank staff and senior management up to date) and support for operations, our proposed economic and sectoral work has two other main elements: (a) major reviews of the economic situation and policy options twice in every six-year Presidential cycle, and (b) in-depth special studies on issues felt to be very important by both the Bank and the Mexican authorities.

63. Discussion of the Manufacturing Sector Report (No. 1671-ME of May 1977) and of the draft report of the 1977 economic mission showed widespread appreciation of our analysis by Mexican officials and has apparently had, or is having, some influence on their budget decisions, foreign trade policy, and the way in which they look at employment and poverty issues. One key to the usefulness of the mission's report was that it focussed on the issues that we and the Mexicans consider to be important, without attempting to dwell on other topics of lesser interest. We plan another general economic mission in 1980 and, if appropriate, again in 1983. Subjects for in-depth studies will be identified jointly by Bank staff and Mexican officials, and in some cases may even be done jointly. Plans already exist for joint work on (a) income distribution, (b) programming steel investments, and (c) identifying priorities for capital goods production. Other topics under consideration include basic needs, public sector management, appropriate technology, regional policies, and policies that affect the mix of agricultural production.

Operations:

Agriculture

64. The rural sector will continue to have the highest priority for Bank support as close to 40 percent of the proposed lending is for agriculture and rural development. The proposed program contains five inter-related elements: (i) credit operations, (ii) integrated rural development projects, (iii) water control projects (completion of ongoing irrigation works, drainage and small irrigation works, and increasing productivity in existing irrigation districts), (iv) agricultural development in rainfed areas, and (v) support for agro-industries and fisheries. The main sectoral objectives are to help Mexico regain the momentum it lost in agricultural production and to make the small farmers and ejidatarios more productive.

65. Per capita agricultural production has been declining since 1965. Mexico, while still a net exporter of agricultural products, is importing significant quantities of basic foodstuffs--such as corn, wheat, oil seeds, and milk. We propose to support a program to increase production through three types of projects: First, to reverse the decline in productivity of presently-cultivated lands, selected programs of irrigation rehabilitation and on-farm improvements would be undertaken. Second, to increase the productivity of small farmers who would receive the bulk of Bank lending; included in this category are loans for the Government's innovative and comprehensive national rural development program, PIDER; programs to improve the productivity of smallholders farming under rainfed conditions; programs to bring new areas under cultivation; and programs to establish small-scale irrigation and drainage units. The two ongoing PIDER loans are supporting 50 micro-regions with a total population of about 400,000 families; some 170,000 families are expected to benefit directly from these projects. The ongoing mid-term evaluation of the first project would influence the design of the new PIDER projects proposed in the lending program. A third category of projects would be addressed at institutional improvements in agricultural extension and the agricultural marketing system. The extension project would help bring modern technology to Mexico's farmers--only 3 percent of which presently could be classified as modern. The marketing project would help improve farmers' access to markets, reduce wastage in transit and reduce the margin between prices the consumers pay and the farmers receive. However, both extension and marketing projects face some uncertainties, the former because of institutional complexity, and the latter because of opposition from the politically powerful intermediaries who now control the markets.

66. Agro-industrial development to provide off-farm employment would be supported through the ongoing credit program, the PIDER rural development program, and a new agro-industry/agribusiness program which is under discussion with the Government. A fisheries development project is also under discussion. Mexico has a large potential for fisheries development and a separate ministry has been created by the new Administration to promote its development both as a foreign exchange earner and as a means of providing employment to the large number of artisan fishermen who are presently unemployed for major part of the year. Improved domestic marketing would help reduce the protein deficiency of the rural and urban poor.

67. The overall agricultural lending program is expected to have an important income redistributive impact. Several of the beneficiaries would be individuals who now have no land rights or are subsistence farmers. The new irrigation and drainage districts would promote land redistribution and introduce modern farming to small holders and ejidatarios.

Basic Needs

68. At present, the basic needs of a substantial proportion of Mexico's population--both urban and rural--are not met. Malnutrition is a problem of serious proportions in the South and South-East region and in the rural areas. Four out of five rural children under the age of 6 suffer from some degree of protein-calorie malnutrition; infant mortality rates in the poor communities reach up to 200 per thousand (as compared to the national average of 70) and the survivors often suffer from physical and mental handicaps for the rest of their lives. Details of these problems are being collected by the Government through institutions such as National Institute of Nutrition. The Government has asked the Bank to help to define a project aimed at increasing the availability of basic goods and services to the poor. Such a project would probably be experimental in its first stage, but would serve to shape a similar project undertaken at later stages and on a larger scale. Identification of the main elements of the first project, which will probably include a program to improve nutrition, will be started soon. A first loan is included in the proposed lending program for FY81.

Industry

69. As explained in parts B and C of this CPP, we consider it important that Mexico promote more rapid growth of productive employment and of non-petroleum exports. The manufacturing sector of Mexico was studied by a Bank mission in 1976 and the Government has accepted many of the recommendations made in our report. These relate to improved financial intermediation, reduction of import controls, moving from ad-hoc to a stable system of export incentives, greater access of private industry to institutional credit, and promotion of small and medium industries. We would continue the dialogue through the industrial lending programs proposed for the next five years.

70. An important objective for the Bank is to support employment and export oriented industrial investments and the proposed lending program includes a DFC operation, through FONEI, to promote investment in export industries, and two loans in support of a comprehensive small and medium scale industry promotion program initiated by Nacional Financiera in FY78 with support from the Bank. These programs would be extended further to outlying regions of the country, and technical assistance and financial services to enterprises with high employment potential would be strengthened.

71. Loans are proposed to finance fertilizer projects to be carried out by FERTIMEX, the public sector enterprise responsible for the production and distribution of fertilizers throughout Mexico. Based on the country's abundant natural gas resources, Mexico produces ammonia at a low cost and the present administration has an ambitious fertilizer manufacturing program not only to meet the growing domestic demand but also to become an exporter to other Latin American countries. Bank involvement would focus on strengthening

FERTIMEX, which has suffered from weak financial management. The Bank would promote cofinancing of FERTIMEX' investments to introduce this enterprise to international financial markets.

72. The Mexican capital goods industry is underdeveloped when measured against similar industries in countries of comparable size and stage of development. The authorities wish to expand the production of engineering goods in view of the contribution it will make to diversification of the manufacturing sector and to employment. The Bank has been working towards the identification and preparation of projects in this subsector; such projects will be carried out by private enterprises, or companies of mixed ownership. The Government has set up a coordination committee to promote efficient production of capital goods, and the Bank's presence would help in devising sound policy and institutional framework for growth of the industry. The issues relate to proper selection of technology and size of investment, financing of the initial investment and then of sales, avoidance of undue protection and promotion of investment in areas of production where Mexico would have comparative advantage. Based on the experience of the first loan (FY79) a second operation would be considered in FY81 (this is presently a reserve project).

73. Mexico has vast natural gas deposits. Besides occurring as dry gas, liquid hydrocarbons are associated with gas in the highly productive oil wells along the Gulf and in the process of pumping oil large quantities of gas (1,500 cu ft/bbl) are released. Mexico is discussing possible exports of gas as such but its use as a raw material to make petrochemicals which could be exported with higher value added also offers opportunities for expanding export earnings. Moreover, PEMEX refineries produce large quantities of by-products whose efficient utilization requires investment in adjacent petrochemical units. Accordingly PEMEX is undertaking massive investments to produce a broad range of basic petrochemicals; these investments would have limited employment effect, and the products face growing international competition. Complementary investments are required to produce downstream products to utilize PEMEX's basic outputs; these investments would be comparatively less capital intensive, produce tradable products and, with rational pricing policies for the feedstock, attract private participation. A possible loan for a petrochemicals project has been included in the program for FY81.

74. Our objective in lending for petrochemical industry is to establish a suitable policy for determining transfer prices for petrochemicals feedstocks to downstream projects and promote a favorable environment for private investments in the secondary petrochemical industry. The project would principally aim at expanding export earnings and improving sector policies.

75. Mexico has been a traditional exporter of minerals, and the recent devaluation of the peso provided an impulse to the development of mining, which has considerable employment potential. A survey of the sector to identify possible projects which the Bank might finance is projected for the end of 1978 and two loans have been tentatively programmed: one to provide credit to private producers and the other to finance a specific development project, probably to expand coal production. Through these loans the Bank would support development of labor intensive small mining enterprises, and help in development of the coal industry.

Power

76. In power, there has been a visible deterioration in the Comision Federal de Electricidad (CFE) since the last Bank loan in FY72 because CFE failed to charge adequate tariffs and borrowed heavily on inappropriate terms. CFE has an investment program of approximately \$7.0 billion and the Finance Minister has requested the Bank to resume lending to CFE; institution-building and co-financing to support CFE's investment program would be the main objectives for the proposed Bank loans to this institution.

77. The recent economic mission looked into CFE's investment program, the forecast of power demand and identified the major issues on whose solution would depend its financial viability. Management addressed a letter to the Minister of Finance in November 1977 conveying our preliminary assessment of the situation and requesting inter alia: (a) capitalization of CFE's debt with the Government and injection of fresh equity capital, (b) improvement of the average maturity of CFE's considerable debt, and (c) review of tariffs. The Bank recommended to CFE to prepare a program for financial rehabilitation over a period of years and offered to help organize co-financing with other lenders in raising long-term loans. CFE has now prepared a set of proposals and presented them to the Government. We have commented on these proposals, and expect an in-depth discussion with CFE later in the year to determine their adequacy. If satisfactory progress is made in reaching agreement on major financial and other issues, we would make the proposed loan to CFE as part of a wider co-financing operation in support of CFE's investment program.

Transport

78. In the highway subsector, two follow-up operations are proposed, including one loan in FY79. Taking into account the maturity of the executing agency concerned, these operations would be designed as sector loans. Consolidation of sound sectoral policies, institution building and promotion of regional diversification of the economy are the objectives of these loans. They will focus on the rehabilitation, modernization and maintenance of the Federal and state highway networks. The Bank will stress the development and execution of financially feasible and cost effective road investment programs, giving priority to the works most supportive of the Government's regional decentralization policies. The Bank would also help finance a substantial feeder roads construction as a part of future rural development operations.

79. In FY74, we made a first loan to develop regional airports. This loan is promoting inter- and intra-regional development and the economic and social integration of the country. A second important objective was the strengthening of the Mexican airport authority and a greater coordination of investment and operating policies in the subsector. A second loan is proposed for FY80 to continue these institution building and regional development efforts. It will be focused on the cost effective expansion, or improvement, of the regional airports system and will be related closely to our work on regional development.

Telecommunications

80. The Government is preparing a program to provide telephone service to the small rural communities. These communities have been hitherto neglected and Bank intervention would help reverse this trend thus reinforcing other projects designed to decentralize economic activity and promote rural development. It is therefore proposed to help finance the first tranche of the forthcoming rural telephone program by making a loan in FY81. This operation, our first in the sector in Mexico, would help strengthen institutional arrangements for efficiently expanding and operating a rural telephone network.

Urban and Regional Development

81. The Bank's objective in this sector is to assist the Government in preparing and implementing policies and projects leading to spatial diversification of economic activities. In FY78, the Bank made its first loan in the sector to help finance an integrated urban and regional development program focused on the needs of the urban poor in the Lazaro Cardenas region on the West Coast. The Government proposes to continue investing public resources to develop some promising regions away from the largest and increasingly congested urban centers. These areas have been identified in a number of Bank studies and in the Government's recently published National Urban Plan, with the highest priority going to the rapidly developing petroleum based growth pole in the Villahermosa-Coatzacoalcos-Minatitlan area. This is where we propose a second urban and regional development project for which a loan is proposed in FY80.

82. We are proposing another loan for FY81 to complement loans made for small and medium scale industry and water supply projects, which also seek to improve opportunities and the way of life in outlying areas. The proposed urban development project would take into account the experience gained in the preparation and implementation of the first two projects and may be patterned on a sector loan format.

Water Supply

83. In FY73, a \$90 million loan was made to the Comision de Aguas del Valle de Mexico (CAVM) as a first step in relieving the capital city's critical long-term water supply constraints and a second loan, within five years, was envisaged. While the Bank-assisted project is being implemented, CAVM has not yet been able to revise the bulk water rates, nor has there been the anticipated improvement in distribution arrangements in Federal District and the adjoining municipalities (see para. 61). In the meantime water shortages have started to develop in the metropolitan area, and the Government has prepared a \$450 million Cutzamala (I) bulk water development project designed to meet the water needs into the early 1980s and has approached both IDB and the Bank for assistance. We have informed the Government as well as the IDB that we would appraise the project only if the outstanding issues are resolved. If such issues cannot be resolved in FY79, this project might be deleted from the lending program, as CAVM might have advanced too far in contracting works.

84. In FY76, the Bank made a loan to support water supply and sewerage projects in selected medium-size cities. The objectives of this loan were to establish an appropriate institutional framework to develop sound investment projects and to set up mechanisms to channel and recuperate funds for investments in the sector. Implementation of this pilot operation has been slower than expected mainly because of difficult coordination between the local and state authorities and the federal agencies concerned. We propose to undertake a study of key issues and prepare a project that leads to sound institutional and financial arrangements for expansion of water supply and sewerage services at costs that users can afford to pay. Demand for funds under the Bank-supported program is now building up and a follow-up operation is envisaged in FY80.

Vocational Training

85. In the past, both Mexico's private and public sectors have undertaken numerous vocational training programs. In view of the rapid increase in Mexico's labor force forecast for the next two decades, and of the need to train new entrants for tasks related to industrial activities, there may be a need to expand vocational training facilities quite substantially in the near future. A review of the vocational training subsector is proposed for late 1978 with the full participation of the corresponding Mexican authorities. Such a review may result in the identification of a project which the Government may wish the Bank to finance. A vocational training project is included in the reserve list for FY82.

IFC

86. IFC has made 23 investment commitments in Mexico for a total of US\$202 million since the first investment in 1957. Of this amount, US\$133 million has been recorded during the last twelve months, with Board approval of projects in special steel, paper, petrochemicals, tourism and cement industries. The Corporation's investments in equity and convertible subordinated loans, totalling US\$24 million, contributed to a sound capital structure in four of these last five projects and created opportunities for broadening ownership. In addition, the longer average term of IFC loans allowed a better balanced maturity structure of the debt funds used for project financing. IFC is also engaged in providing technical assistance to the Mexican authorities for the development of the financial markets. The expansion of IFC's operations has been made possible by the Corporation's capital increase and staff allocation, as well as by the increased financing needs of the private sector, the restoration of growth of the Mexican economy and renewal of private sector confidence following the Government's stabilization program.

87. As part of its recent Five Year Plan, the Corporation intends to continue the expansion of its activities in Mexico. Commitments in two of the four projects expected for FY1970 have already been made, financial assistance having been approved for Empresas Tolteca (cement) and Camino Real Ixtapa (tourist hotel in a resort developed with Bank assistance). Projects in capital goods and mining sectors are scheduled for appraisal shortly.

In close collaboration with private firms, Government institutions and the Bank, IFC continues to explore economic sectors where a greater development impact can be achieved. In addition, the Bank and the Corporation propose to work together with the Government and official agencies such as NAFIN (the national development bank), SOMEX (a quasi-official financial institution) and trust funds in promoting a favorable environment for private investment in petrochemicals (para. 73 ante), capital goods, agroindustries, fisheries and forest industry products. The efforts of the two agencies would be complementary, the Bank loans offering an opportunity for policy dialogue and the IFC strengthening the private sector and serving as a balancing element between local and foreign investors. Besides helping Mexico attract foreign direct investment, suppliers of technology and other expertise and assisting in bringing them together with local investors, IFC's role as a catalyst serves to draw foreign financing. An important example is the recent US\$100 million loan for the expansion of the tolteca cement company, of which US\$85 million will be sold to participants.

G. Summary and Conclusions

88. Since the last CPP review in April 1976, there has been a marked improvement in Mexican economic management; the current administration has shown great ability to overcome the short-run crisis it inherited. However, the poverty problem of Mexico is more urgent than ever; there are also uncertainties regarding policies affecting the respective roles of the public and private sectors in the economy, relative prices (of foreign exchange vs. domestic currency, of labor vs. machinery) and domestic savings (tax reforms and pricing of goods and services from public enterprises), which may lead to distortions in the pattern of development over the medium-term. Our macro-economic work program focuses on these problems, and our dialogue with the Government will concentrate on them.

89. The newly established oil reserves have greatly relaxed the external resource constraint on Mexico's economic growth. We welcome the Government's resolve to take advantage of this new opportunity to attack poverty and to promote a better spatial development of economic activities. The CPP recommends that we support the Government in these areas through (a) Bank operations, and (b) technical assistance (including through the EDI), to improve its capacity to formulate and implement anti-poverty, employment oriented programs and projects.

90. Mexico's oil wealth brings not only exciting opportunities, but also some difficult choices: how fast to exploit the reserves; how much to replace external borrowings with oil exports; the mix of external borrowings from private and international financial institutions. Our appreciation of the Mexican strategy assumes that the Government will avoid an over dependence on oil. We expect that it will use its oil wealth for improving the living conditions of the poor, promoting employment and developing its agriculture and industry.

91. We expect Mexico to borrow \$7-8 billion (gross) annually in the coming years, and propose an annual average Bank lending program of about \$650 million. But we are seeking approval only for the period through FY81. This is for two reasons: one the Government has only partially reviewed its borrowing program from the Bank and only several months from now it will be able to discuss development and borrowing programs beyond FY81; two, we would wish to observe how, given its easy access to commercial loans, Mexico responds to the Bank's procedures and requirements for project and sector lending, however successful we may be in adapting them to the Mexican realities. We propose to prepare a brief CPP after the Government has discussed with us its borrowing program for the entire sexenio of the present Administration (1977-1982), where we would firm up our proposals for FYs 82-84.

Population: 64.2 m (mid-1977)
 Population Growth: 3.5% (1970-75)
 GNP per Capita: \$1110 (1977)
 Area: 1.9 million km²
 Literacy Rate: 76%

MEXICO - ACTUAL AND PROJECTED LENDING OPERATIONS THROUGH FY84
 (\$ million)

	Through FY73	Actual					Current FY79	Program					Total FY69-73	Total FY74-78	Total FY79-83	Total FY80-84	Reserve Projects
		FY74	FY75	FY76	FY77	FY78		FY80	FY81	FY82	FY83	FY84					
Agricultural/Livestock Credit I - IV	IBRD	275.0															
Agricultural/Livestock Credit V	IBRD				125.0												
Agricultural/Livestock Credit VI	IBRD					200.0											
Agricultural/Livestock Credit VII	IBRD										150.0						
Papaloapan Rural Development	IBRD			50.0													
Integrated Rural Development, PIDER I	IBRD			110.0													
Integrated Rural Development, PIDER II	IBRD				120.0					150.0							
Integrated Rural Development, PIDER III	IBRD											200.0 *					
Integrated Rural Development, PIDER IV	IBRD																
Irrigation I - IV	IBRD	70.3															
Irrigation V (Rio Sinaloa I)	IBRD		47.0														
Irrigation VI (Rio Panuco) and Supplemental	IBRD		77.0					(25.0)									
Irrigation VII (Rio Bravo/Rio S. Juan)	IBRD			50.0													
Irrigation VIII (Rio Sinaloa II/Rio Fuerte)	IBRD							100.0									
Irrigation IX (Rio Grande/Rio Verde)	IBRD							20.0									
Water Control	IBRD								100.0								
Irrigation X (Rio Bravo/Rio S. Juan II)	IBRD							40.0									
Small Scale Agric. Infrastructure I	IBRD											100.0 *					
Small Scale Agric. Infrastructure II	IBRD																
Los Naranjos/Los Macines Agric. Devpt.	IBRD							60.0									
PANUCO Rainfed Agric. Development	IBRD									100.0 *							
Tropical Agric. Development I	IBRD					56.0											
Tropical Agric. Development II	IBRD																
Agro Industries I	IBRD									50.0							
Agro Industries II	IBRD																
Agricultural Extension	IBRD							30.0									
Fisheries	IBRD								50.0								50.0 (80)
Agric./Livestock Marketing	IBRD																
Industry		0.5															
Export-Oriented Industry (FONEI I)	IBRD	35.0															
Export-Oriented Industry (FONEI II)	IBRD			50.0													
Export-Oriented Industry (FONEI III)	IBRD					100.0											
Export-Oriented Industry (FONEI IV)	IBRD							100.0									
Export-Oriented Industry (FONEI V)	IBRD									100.0							
Small and Medium Industrial Devpt. I	IBRD					47.0											
Small and Medium Industrial Devpt. II	IBRD									100.0							
Small and Medium Industrial Devpt. III	IBRD												150.0				
Fertilizer I	IBRD			50.0													
Fertilizer II	IBRD							90.0									
Fertilizer III	IBRD									100.0							
Capital Goods Development I	IBRD							100.0									
Capital Goods Development II	IBRD																100.0 (81)
Secondary Petrochemicals	IBRD									100.0 *							
Mining Development I	IBRD									50.0							
Mining Development II	IBRD											125.0					
Las Truchas Steel	IBRD																
Forest Industries	IBRD		70.0														50.0 (82)
Power I - XII	IBRD	704.8															
Power XIII	IBRD								150.0								
Power XIV	IBRD											150.0					
Basic Needs I	IBRD																
Basic Needs II	IBRD									50.0 *							100.0
Tourism I	IBRD	22.0															
Tourism II	IBRD					42.0											
Tourism III	IBRD						50.0										
Highways I - VI	IBRD	175.7															
Highways VII	IBRD		90.0														
Highways VIII (Sector loan)	IBRD							120.0									
Highways IX (Sector loan)	IBRD										100.0						
Railways I - II	IBRD	136.0															
Railways III	IBRD				100.0												
Railways IV	IBRD										100.0 *						
Ports I	IBRD	20.0															
Ports II	IBRD												50.0				
Airports I	IBRD		25.0														
Airports II	IBRD							25.0 *									
Rural Telephones	IBRD								50.0								
Urban Development I	IBRD					16.5											
Urban Development II	IBRD								50.0 *								
Urban Development III	IBRD									100.0 *							
Urban Development IV	IBRD													150.0			
Mexico City Pollution Control	IBRD													100.0			
Water Supply - Mexico City I	IBRD	90.0															
Water Supply - Mexico City II	IBRD																150.0 (79)
Water Supply - Medium Cities I	IBRD				40.0												
Water Supply - Medium Cities II	IBRD																
Water Supply - Medium Cities III	IBRD											100.0					
Vocational Training	IBRD																50.0 (82)
Lending Program - Total	IBRD	1,528.4	309.0	260.0	315.0	162.0	469.5	495.0	665.0	650.0	650.0	725.0	800.0	763.5	1,515.5	3,185.0	3,490.0
Number		32	5	4	4	2	6	6	8	9	6	6	7	11	21	35	36
Lending Program in Constant FY78 Commitment \$			398.2	314.0	355.5	171.8	469.5	467.0	591.6	546.2	516.3	545.1	571.4	1,292.2	1,709.0	2,666.2	2,770.6
Commitment Deflator (FY78 = 100)	IBRD		77.6	82.8	88.6	94.3	100.0	106.0	112.4	119.0	125.9	133.0	140.0				
Standby Projects	IBRD							75.0	250.0	200.0	300.0						
Number								2	3	2	2						
IBRD o/s Inc. Undisbursed excl. Undisbursed		1,419.2	1,662.7	2,008.4	2,239.3	2,404.0	2,976.1	3,395.3	3,968.4	4,510.3	5,034.0	5,603.5	6,214.8				
		908.2	1,001.4	1,190.3	1,294.6	1,481.2	1,737.4	1,940.1	2,209.2	2,526.0	2,904.7	3,297.5	3,714.5				
IBRD Gross Disbursements		1,018.2	158.7	202.6	188.4	183.7	146.4	278.5	361.0	424.9	505.0	548.3	605.7	437.9	879.8	2,117.7	2,444.9
Less Amortization		266.9	31.5	35.8	41.1	45.0	55.4	75.8	91.9	108.1	126.3	155.5	188.7	131.3	208.8	557.6	670.5
Equals: Net Disbursements		751.3	127.2	166.8	147.3	138.7	91.0	202.7	269.1	316.8	378.7	392.8	417.0	306.6	671.0	1,560.1	1,774.4
Less: Interest and charges		328.9	58.7	71.4	82.8	94.3	93.8	126.6	149.4	177.7	209.5	244.0	280.2	177.9	401.0	907.2	1,060.8
Equals: Net Transfer		422.4	68.5	95.4	64.5	44.4	-2.8	76.1	119.7	139.1	169.2	148.8	136.8	128.7	270.0	652.9	713.6
Commitments from Other Sources (CY)																	
IDB		552.0	102.0	121.8	355.0	280.0	300.0	336.0	375.0	375.0	375.0	375.0	375.0	333.2	1,158.0	1,836.0	1,875.0
Bilateral		929.4	130.5	316.8	118.6	250.0	218.8	271.7	319.8	368.8	426.0	485.4	553.4	336.6	1,034.7	1,871.7	2,153.4
Suppliers		350.6	64.7	114.7	199.5	150.0	307.5	373.8	448.2	530.8	611.1	701.2	797.0	471.9	837.4	2,665.1	3,088.3
Banks & Other Financ. Institutions		3,463.6	2,547.8	3,3													

MEXICO - Proposed Lending Program FY79-81 ^{1/}

Developmental Objectives

<u>Project</u>	<u>Loan Amount</u> <u>US\$million</u>	<u>Benefit</u> <u>Low Income</u> <u>Groups</u>	<u>Promote</u> <u>Agricultural</u> <u>Production</u>	<u>Create</u> <u>Employment</u>	<u>Spatial</u> <u>Diversification</u>	<u>Institution</u> <u>Building</u>	<u>Foreign</u> <u>Exchange</u> <u>Earnings</u>
<u>FY79</u>							
Supplemental Rio Panuco	25	XX	X	X			
Irrigation VIII (Rio Sinaloa II/ Rio Fuerte)	100	X	XX	X			
Irrigation IX (Rio Grande/Rio Verde)	20	XX	X	X			
Small Scale Agriculture Infrastructure I	40	XX	X	X			
Fertilizer II	90		X		X	XX	X
Capital Goods Development I	100			XX	X	X	X
Highway VIII (Sector Loan)	120				XX	X	
<u>FY80</u>							
Airports II	25				XX	X	
Urban Development II	50	X			XX	X	
Integrated Rural Development PIDER III	150	XX	X	X			
Los Naranjos/Los Macines Agr. Devpt.	60	XX	X	X			
Agricultural Extension	30	X	XX	X			
Export Oriented Industry (FONEI IV)	100			X	X		XX
Power XIII	150					XX	
Water Supply - Medium Cities II	100	X				XX	
<u>FY81</u>							
Secondary Petrochemicals	100				X	X	XX
Basic Needs I	50	XX				X	
Urban Development III	100	X			XX	X	
Water Control	100	X	XX	X			
Agro Industries I	50	X		XX	X		
Fisheries	50	X	X	XX			
Small and Medium Industrial Development II	100	X		XX	X	X	
Mining Development I	50	X		XX	X	X	
Rural Telephones	50				X	XX	

^{1/} XX = Primary Objective; X = Secondary Objective.

MEXICO: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

(\$ millions)

As of June 30, 1978

Project & No.	Amount:		Date:		Closing Date	Forecast Date	FY 78				FY 79				FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86		
	Original - Net	Cancelled - Net	Approved - Effective	Signed - Effective			FY 77	1	2	3	4	1	2	3								4	
Cihuatlanjo Tourism IARD 793	22.0	-	12/21/71	1/18/72	Orig: 12/31/75 Rev: 6/30/76 Act: -	12/ 7/71	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Water Supply IARD 909	90.0	-	6/12/73	6/18/73	Orig: 12/31/77 Rev: 12/31/78 Act: -	5/24/73 6/ 7/77	35.8	37.2	44.8	48.2	49.6	39.1	38.7	39.2	41.6	42.9	-	-	-	-	-	-	
Seventh Highway IARD 948	90.0	-	2/12/74	3/ 1/74	Orig: 12/31/78 Rev: - Act: -	1/22/74 1/31/78	54.0	61.0	66.0	73.0	82.0	86.0	90.0	-	-	-	-	-	-	-	-	-	
Panuco Irrigation IARD 909	77.0	-	2/19/74	3/ 1/74	Orig: 12/31/80 Rev: - Act: -	2/ 4/74	64.0	66.0	66.0	70.5	73.0	74.5	76.0	76.2	76.4	76.4	77.0	-	-	-	-	-	
El Simolao Irrigation IARD 970	47.0	-	2/19/74	3/ 1/74	Orig: 12/31/80 Rev: - Act: -	11/14/73 9/14/76	28.0	29.0	32.0	36.0	40.0	41.2	43.0	44.2	46.0	46.8	47.0	-	-	-	-	-	
Airports Development IARD 1022	25.0	-	6/ 6/74	6/28/74	Orig: 6/30/78 Rev: 6/30/80 Act: -	5/28/74 12/ 1/77	22.4	23.1	23.7	24.3	25.0	8.0	8.4	8.9	9.6	11.6	-	-	-	-	-	-	
Integrated Rural Development IARD 1053	50.0	-	10/29/74	11/15/74	Orig: 6/30/80 Rev: - Act: -	9/23/74 9/21/77	14.3	16.9	19.6	22.3	24.9	1.0	3.5	4.6	5.8	6.9	10.0	13.0	15.3	17.5	28.5	42.5	50.0
Integrated Rural Development - FIDER IARD 1110	110.0	-	5/ 8/75	5/22/75	Orig: 12/31/78 Rev: - Act: -	4/16/75 1/31/78	89.9	96.2	102.0	106.5	110.0	-	-	-	-	-	-	-	-	-	-	-	
Seventh Irrigation IARD 1111	150.0	-	8/ 8/75	5/22/75	Orig: 12/31/82 Rev: - Act: -	4/16/75	19.9	26.1	32.2	38.2	44.1	50.1	56.0	61.6	67.1	90.1	114.8	138.3	150.0	-	-	-	
Fertilizer Project IARD 1112	50.0	-	5/22/75	7/30/75	Orig: 12/31/78 Rev: - Act: -	5/ 5/75	33.5	39.5	45.0	50.0	-	-	-	-	-	-	-	-	-	-	-	-	
Water Supply & Sewerage IARD 1186	40.0	-	12/18/75	1/13/76	Orig: 12/31/80 Rev: - Act: -	11/26/75	14.0	18.0	22.0	26.0	30.0	33.5	36.0	37.5	39.0	40.0	-	-	-	-	-	-	
Second Equipment Fund IARD 1205	50.0	-	2/ 3/76	4/20/76	Orig: 12/31/79 Rev: - Act: -	1/15/76 2/25/77	12.0	17.0	22.0	28.0	34.0	8.0	13.0	18.0	24.0	30.0	36.0	41.0	45.0	48.0	50.0	-	-
Fifth Livestock IARD 1217	125.0	-	3/ 9/76	3/11/76	Orig: 1/ 1/80 Rev: - Act: -	1/29/76 6/ 9/78	58.0	73.0	88.0	103.0	108.0	112.0	116.0	120.0	125.0	-	-	-	-	-	-	-	
Third Railway IARD 1232	100.0	-	3/30/76	4/30/76	Orig: 6/30/79 Rev: - Act: -	3/15/76	41.8	54.3	65.0	75.0	84.6	92.3	100.0	-	-	-	-	-	-	-	-	-	
Seja Tourism IARD 1420	42.0	-	5/10/77	7/ 5/77	Orig: 6/30/81 Rev: - Act: -	4/18/77	-	-	-	3.2	5.1	6.8	10.3	14.2	18.0	34.8	42.0	-	-	-	-	-	
Rural Development IARD 1442	120.0	-	6/16/77	7/ 5/77	Orig: 7/31/81 Rev: - Act: -	6/ 6/77 1/31/78	-	-	-	7.0	7.0	13.8	20.5	27.3	34.0	82.0	120.0	-	-	-	-	-	
Tourism Development IARD 1524	50.0	-	2/28/78	3/21/78	Orig: 12/31/81 Rev: - Act: -	2/16/78	-	-	-	-	-	-	-	5.3	10.6	38.3	50.0	-	-	-	-	-	
Industrial Development IARD 1552	47.0	-	4/27/78	5/ 4/78	Orig: 6/30/82 Rev: - Act: -	4/ 3/78	-	-	-	-	-	-	3.5	6.5	10.0	27.5	41.0	47.0	-	-	-	-	
Tropical Agricultural IARD 1553	56.0	-	4/27/78	5.5.	Orig: 12/31/83 Rev: - Act: -	4/ 3/78	-	-	-	-	-	-	-	-	2.1	11.3	23.1	37.2	48.5	56.0	-	-	

MEXICO: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

(\$ millions)

As of June 30, 1978

Project & No.	Amount: - Original - Cancelled - Net	Date: - Approved - Signed - Effective	Orig: Date	Forecast Date	FY 77	FY 78				FY 79				FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
						1	2	3	4	1	2	3	4							
Construction Project IBRD 1554	16.5 - 16.5	4/27/78 N.S. N.E.	Orig: 6/30/82	4/ 4/78	-	-	-	-	-	-	-	-	3.2	9.0	13.2	16.5	-	-	-	-
Third Industrial IBRD 1560	100.0 - 100.0	5/ 2/78 N.S. N.E.	Orig: 6/30/82	4/11/78	-	-	-	-	-	-	-	3.4	7.6	45.2	66.0	100.0	-	-	-	-
Sixth Agricultural IBRD 1569	200.0 - 200.0	5/16/78 N.S. N.E.	Orig: 6/30/82	5/ 1/78	-	-	-	-	-	-	-	18.0	28.0	86.0	144.0	200.0	-	-	-	-

* Balance indeterminate.

Controller's
8/25/78

LAND AREA (THOU KM2)	MEXICO - SOCIAL INDICATORS DATA SHEET					
	MEXICO			REFERENCE COUNTRIES (1970)		
	1960	1970	MOST RECENT ESTIMATE	BRAZIL	CHILE	SPAIN**
TOTAL	1972.5					
AGRIC.	950.0					
GNP PER CAPITA (US\$)	370.0	690.0	1090.0	550.0	820.0	1580.0
POPULATION AND VITAL STATISTICS						
POPULATION (MID-YR. MILLION)	36.0	50.4	62.0	92.8	9.4	33.6
POPULATION DENSITY PER SQUARE KM.	18.0	26.0	31.4	11.0	12.0	67.0
PER SQ. KM. AGRICULTURAL LAND	36.0	52.0	65.3	49.0	58.0	105.0
VITAL STATISTICS						
CRUDE BIRTH RATE (/THOU, AV)	46.1	43.8	42.0	33.4	32.9	21.0
CRUDE DEATH RATE (/THOU, AV)	14.0	10.2	8.6	9.9	11.0	8.8
INFANT MORTALITY RATE (/THOU)	74.0	68.5	52.0	110.0	79.0	27.9
LIFE EXPECTANCY AT BIRTH (YRS)	56.3	62.4	64.7	59.4	60.6	70.5
GROSS REPRODUCTION RATE	3.2	3.1	3.0	2.6	2.2	1.4
POPULATION GROWTH RATE (%)						
TOTAL	3.1	3.5	3.5	2.9	2.4	1.1
URBAN	4.9	4.8	5.1	5.0	3.5	2.0
URBAN POPULATION (% OF TOTAL)	50.7	58.7	63.6	56.0	76.0	59.1
AGE STRUCTURE (PERCENT)						
0 TO 14 YEARS	45.8	46.2	46.3	42.1	39.0	27.8
15 TO 64 YEARS	50.9	50.1	50.3	54.7	56.3	62.5
65 YEARS AND OVER	3.3	3.7	3.4	3.2	4.7	9.7
AGE DEPENDENCY RATIO						
ECONOMIC DEPENDENCY RATIO	1.0	1.0	1.0	0.8	0.8	0.6
FAMILY PLANNING						
ACCEPTORS (CUMULATIVE, THOU)	..	55.5/a	1470.1/b	250.0	403.5	..
USERS (% OF MARRIED WOMEN)	..	..	14.0	1.6	..	..
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSAND)	11300.0	13000.0	16600.0	29400.0	2900.0	11900.0
LABOR FORCE IN AGRICULTURE (%)	54.0	45.0	41.0	40.4	21.0	25.0
UNEMPLOYED (% OF LABOR FORCE)	..	..	6.6/c	7.5	4.1/a	1.1/a
INCOME DISTRIBUTION						
% OF PRIVATE INCOME REC'D BY -						
HIGHEST 5% OF HOUSEHOLDS	28.7/a	27.9	..*	35.0	31.0	..
HIGHEST 20% OF HOUSEHOLDS	58.8/a	58.3	..*	62.0	55.8	..
LOWEST 20% OF HOUSEHOLDS	3.5/a	3.4	..*	3.0	4.8	..
LOWEST 40% OF HOUSEHOLDS	10.3/a	10.5	..*	10.0	13.0	..
DISTRIBUTION OF LAND OWNERSHIP						
% OWNED BY TOP 10% OF OWNERS	..	37.1	..	45.0	..	..
% OWNED BY SMALLEST 10% OWNERS	..	0.3	..	1.5	..	..
HEALTH AND NUTRITION						
POPULATION PER PHYSICIAN	1800.0	1480.0	..	1910.0	2210.0/b	740.0/b
POPULATION PER NURSING PERSON	2830.0/b	1620.0	1420.0/d	3220.0	5830.0/b	..
POPULATION PER HOSPITAL BED	590.0/c	960.0	860.0	260.0	270.0	220.0
PER CAPITA SUPPLY OF -						
CALORIES (% OF REQUIREMENTS)	107.0	115.0	117.0	104.0	101.0	107.0
PROTEIN (GRAMS PER DAY)	65.0	65.0	66.9	64.0	71.0	81.0
-OF WHICH ANIMAL AND PULSE	29.0/d	28.0/c	27.5	39.0	32.0	40.0
DEATH RATE (/THOU) AGES 1-4	12.7	9.8	8.4/e	..	3.9	0.9
EDUCATION						
ADJUSTED ENROLLMENT RATIO						
PRIMARY SCHOOL	80.0	104.0	111.0	87.0	107.0	123.0
SECONDARY SCHOOL	11.0	22.0	30.0	..	39.0	57.0
YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)	12.0	12.0	12.0	11.0	12.0	11.0
VOCATIONAL ENROLLMENT (% OF SECONDARY)	24.0	24.0	..	17.0	33.0	20.0
ADULT LITERACY RATE (%)	65.4	74.2	76.0	66.2	90.0	94.0
HOUSING						
PERSONS PER ROOM (URBAN)	2.6	2.2	..	1.0	1.3/c	..
OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)	76.0/e	61.0/d	..	73.0/c	40.0/c,d	..
ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)	..	59.0	..	48.0	..	..
RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)	..	28.0	..	8.0	..	..
CONSUMPTION						
RADIO RECEIVERS (PER THOU POP)	95.0	276.0	301.0	60.0	143.0	..
PASSENGER CARS (PER THOU POP)	14.0	24.0	40.0	25.0	18.0	71.0
ELECTRICITY (KWH/YR PER CAP)	313.0	567.0	724.0	491.0	806.0	1634.0
NEWSPRINT (KG/YR PER CAP)	2.8	3.2	3.6	2.7	5.0	5.8

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1960 and 1971, and for Most Recent Estimate between 1973 and 1976.

* Income distribution data for 1975 currently being revised.

** Spain has been selected as an objective country because its per capita income is higher than Mexico's and because both countries have in common the importance of tourism and the influence of nearby richer countries.

MEXICO 1960 /a 1963; /b Includes midwifery and nursing auxiliaries; /c 1962; /d 1961-62; /e Inside only.
1970 /a 1968-70; /b Including assistant nurses; /c 1964-66; /d Inside only;
MOST RECENT ESTIMATE: /a Ratio of population under 15 and 65 and over to total labor force; /b 1968-75; /c Larger cities only;
/d Hospital personnel; /e 1972.

BRAZIL 1970 /a Economically active population; /b Hospital personnel; /c Inside only.

CHILE 1970 /a Gran Santiago; /b Personnel in government services only; /c Data refer to households; /d Inside only.

SPAIN 1970 /a Employment office estimate; /b Registered, not all practicing in the country.

RL2, July 14, 1978

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km²)

Total - Total surface area comprising land area and inland waters.
AGRIC. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.

GNP per capita (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1974-76 basis); 1960; 1970 and 1976 data.

Population and vital statistics

Population (mid-year million) - As of July first; if not available, average of two end-year estimates; 1960, 1970 and 1976 data.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.

Population density - per square km of agric. land - Computed as above for agricultural land only.

Vital statistics

Crude birth rate per thousand, average - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.

Crude death rate per thousand, average - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.

Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70 and 1970-75.

Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.

Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.

Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment

Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not comparable.

Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.

Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.

Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.

Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day; available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food is defined as above; requirements for all countries established by USDA Economic Research Services provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein; these standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulses - Protein supply of food derived from animals and pulses in grams per day.

Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.

Education

Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.

Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded.

Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.

Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.

Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

Housing

Persons per room (urban) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.

Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.

Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.

Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption

Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.

Newspaper (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newspaper.

ATTACHMENT 38

ECONOMIC DEVELOPMENT DATA SHEETS

	ACTUAL				EST.	PROJECTED			
	1965	1970	1975	1976	1977	1978	1979	1985	1990
NATIONAL ACCOUNTS (1) (MILLIONS OF US\$ AT 1975 PRICES)									
GROSS DOMESTIC PRODUCT	42942.4	59940.2	79028.6	80547.9	82811.5	88215.3	96238.3	149781.6	212881.2
GAINS FROM TERMS OF TRADE	-455.9	-343.4	0.0	184.5	644.8	876.4	846.5	2099.6	4681.7
GROSS DOMESTIC INCOME	42486.5	59596.9	79028.6	80732.4	83456.3	89091.7	97084.8	151881.2	217563.0
IMPORTS	4277.5	6313.1	8636.6	8044.0	6235.8	7624.1	8819.3	16939.6	24488.7
EXPORTS - VOLUME	-4508.7	-5415.8	-6081.5	-6437.2	-5473.7	-6383.3	-8539.1	-13242.8	-18288.0
EXPORTS - TT. ADJUSTED	-4052.8	-5072.4	-6081.5	-6621.7	-6118.6	-7259.7	-9385.6	-15342.4	-22969.7
RESOURCE GAP - TT. ADJUSTED	224.7	1240.7	2555.1	1422.3	117.3	364.4	-566.3	1597.2	1519.0
TOTAL CONSUMPTION	34295.3	48180.2	63060.8	64034.4	67016.4	70597.8	75155.3	117995.2	168216.8
INVESTMENT	8415.9	12657.4	18523.0	18120.3	16557.1	18858.3	21363.2	35483.1	50865.2
NATIONAL SAVINGS	7640.7	10684.1	14341.8	14773.1	14762.1	16587.5	20037.6	32057.1	46744.9
DOMESTIC SAVINGS	8191.2	11416.7	15967.9	16698.0	16439.8	18493.9	21929.5	33886.0	49346.2
GDP AT CURRENT US\$	20160.0	33496.0	79028.6	79139.1	72554.4	89516.6	105014.6	245207.1	465846.0
SECTOR OUTPUT (SHARE OF GDP AT 1975 PRICES)									
AGRICULTURE	0.148	0.120	0.100	0.097	0.098	0.095	0.090	0.071	0.059
INDUSTRY	0.312	0.340	0.354	0.369	0.370	0.382	0.386	0.444	0.508
SERVICES	0.539	0.540	0.547	0.534	0.532	0.523	0.524	0.485	0.432
PRICES (1975 = 100)									
EXPORT PRICE INDEX	43.56	50.69	100.00	105.18	136.25	146.57	151.51	230.43	326.99
IMPORT PRICE INDEX	48.47	54.12	100.00	102.25	121.89	128.88	137.84	198.89	260.35
TERMS OF TRADE INDEX	89.89	93.66	100.00	102.87	111.78	113.73	109.91	115.85	125.60
DEFLATOR (US\$)	46.95	55.88	100.00	98.25	87.61	101.48	109.12	163.71	218.83
REAL AVERAGE EXCHANGE RATE	12.50	12.50	12.50	15.43					

MEXICO

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<u>SELECTED INDICATORS</u>	<u>1965-76</u>	<u>1976-78</u>	<u>1978-85</u>	<u>1985-90</u>
ICOR	3.74	4.52	2.99	3.27
IMPORT ELASTICITY	1.00	-0.59	1.47	1.05
AVERAGE NATIONAL SAVINGS RATE	0.19	0.19	0.22	0.22
MARGINAL NATIONAL SAVINGS RATE	0.20	0.24	0.25	0.24
IMPORTS/GDP	0.10	0.09	0.10	0.11
INVESTMENT/GDP	0.21	0.21	0.23	0.24
RESOURCE GAP/GDP	0.02	0.01	0.00	0.01

(1) COMPONENTS MAY NOT ADD UP BECAUSE OF ROUNDING

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ATTACHMENT 3 B

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ECONOMIC DEVELOPMENT DATA SHEETS

	GROWTH RATES				1975 SHARE OF GDP
	1965 1976	1976 1978	1978 1985	1985 1990	
NATIONAL ACCOUNTS (1) (MILLIONS OF US\$ AT 1975 PRICES)					
GROSS DOMESTIC PRODUCT	5.9	4.7	7.9	7.3	100.0
GAINS FROM TERMS OF TRADE					0.0
GROSS DOMESTIC INCOME	6.0	5.0	7.9	7.5	100.0
IMPORTS	5.9	-2.6	12.1	7.6	10.9
EXPORTS - VOLUME	3.3	-0.4	11.0	6.7	7.7
EXPORTS - TT. ADJUSTED	4.6	4.7	11.3	8.4	7.7
RESOURCE GAP - TT. ADJUSTED					3.2
TOTAL CONSUMPTION	5.8	5.0	7.6	7.3	79.8
INVESTMENT	7.2	2.0	9.5	7.5	23.4
NATIONAL SAVINGS	6.2	6.0	9.9	7.8	18.1
DOMESTIC SAVINGS	6.7	5.2	9.0	7.8	20.2
GDP AT CURRENT US\$	13.2	6.4	15.5	13.7	
SECTOR OUTPUT (SHARE OF GDP AT 1975 PRICES)					
AGRICULTURE					
INDUSTRY					
SERVICES					
PRICES (1975 = 100)					
EXPORT PRICE INDEX	8.3	18.0	6.7	7.3	
IMPORT PRICE INDEX	7.0	12.3	6.4	5.5	
TERMS OF TRADE INDEX	1.2	5.1	0.3	1.6	
GDP DEFLATOR (US\$)	6.9	1.6	7.1	6.0	
ANNUAL AVERAGE EXCHANGE RATE					

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ATTACHMENT 3 C

IMPORT DETAIL

	1972	1973	1974	1975	1976	1977	1978	1979	1985
CONSTANT 1975 PRICES (MILLIONS OF DOLLARS)									
1.1 FOOD	197.0	289.9	407.0	443.0	190.5	362.4	384.5	384.5	445.1
1.2 OTHER CONSUMER GOODS	655.9	675.6	766.8	823.2	729.4	623.2	696.4	837.7	1985.5
2. PETROLEUM, OIL, LUBRICANTS	423.1	556.4	318.6	291.1	223.4	114.4	193.4	145.1	.0
3. OTHER INTERMEDIATE GOODS	1291.8	1635.5	2522.9	2150.9	1931.3	1781.6	2013.4	2344.3	4776.1
4. CAPITAL GOODS	1848.3	2070.1	2574.7	2905.6	2846.5	2277.8	3182.9	3843.8	7588.3
5.1 TOTAL GOODS (CIF)	4416.2	5227.6	6590.0	6613.8	5921.0	5159.3	6470.6	7555.1	14795.0
5.2 TOTAL GOODS (FOB)	4250.4	4967.6	6263.6	6285.5	5627.1	5159.3	6470.6	7555.1	14795.0
6. NON-FACTOR SERVICES	2209.0	2147.4	2134.3	2351.1	2416.9	1078.5	1153.4	1264.2	2144.6
7. TOTAL GOODS AND NFS	6459.4	7115.0	8397.9	8636.6	8044.0	6235.8	7624.0	8819.3	16939.6
PRICE INDEX 1975 = 100									
1.1 FOOD	52.04	85.88	123.75	100.00	77.75	74.65	87.86	101.48	158.41
1.2 OTHER CONSUMER GOODS	67.00	76.72	90.57	100.00	102.55	110.93	119.13	127.79	191.07
2. PETROLEUM, OIL, LUBRICANTS	29.38	48.69	125.39	100.00	125.29	95.35	99.63	106.71	444.80
3. OTHER INTERMEDIATE GOODS	68.73	77.09	89.77	100.00	103.08	110.56	118.30	125.99	178.72
4. CAPITAL GOODS	64.46	74.81	86.61	100.00	101.44	108.78	115.85	123.96	177.51
5. TOTAL GOODS (CIF)	62.17	73.60	92.45	100.00	102.25	106.96	114.82	123.54	179.14
6. NON-FACTOR SERVICES	62.17	73.60	92.45	100.00	102.25	111.15	120.04	129.04	193.65
7. TOTAL GOODS AND NFS	62.17	73.60	92.45	100.00	102.25	121.89	128.88	137.84	198.89
CURRENT VALUES (MILLIONS OF DOLLARS)									
1.1 FOOD	102.5	249.0	503.6	443.0	148.1	270.5	337.8	390.2	705.0
1.2 OTHER CONSUMER GOODS	439.5	518.3	694.5	823.2	748.0	691.3	829.6	1070.5	3793.7
2. PETROLEUM, OIL, LUBRICANTS	124.3	270.9	399.5	291.1	279.9	109.1	192.7	154.8	.0
3. OTHER INTERMEDIATE GOODS	887.9	1260.8	2264.8	2150.9	1990.7	1969.7	2381.9	2953.6	8536.0
4. CAPITAL GOODS	1191.5	1548.6	2230.1	2905.6	2887.4	2477.8	3687.5	4764.6	13469.6
5.1 TOTAL GOODS (CIF)	2745.7	3847.6	6092.5	6613.8	6054.1	5518.4	7429.5	9333.7	26504.3
5.2 TOTAL GOODS (FOB)	2642.6	3656.3	5790.7	6285.5	5753.6	5518.4	7429.5	9333.7	26504.3
6. NON-FACTOR SERVICES	1373.4	1580.5	1973.2	2351.1	2471.2	2082.2	2396.1	2823.1	7187.1
7. TOTAL GOODS AND NFS	4016.0	5236.8	7763.9	8636.6	8224.8	7600.6	9825.8	12156.8	33691.4

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ATTACHMENT 3 D

EXPORT DETAIL

	1972	1973	1974	1975	1976	1977	1978	1979	1985
CONSTANT 1975 PRICES (MILLIONS OF DOLLARS)									
1.1 Cotton	220.7	147.2	153.8	173.7	169.7	140.0	159.6	167.6	204.0
1.2 Coffee	112.0	165.3	152.2	184.2	162.7	122.5	143.3	129.0	122.6
1.3 Sugar	288.0	290.1	146.6	132.5		.0	.0	.0	.0
1.4 Petroleum, oil, lubricants	106.0	90.6	132.3	460.1	522.0	783.0	1531.8	3328.7	5497.6
1.5 Silver	134.4	136.6	139.7	145.7	144.6	185.6	191.2	196.9	235.1
1.6 Other agricultural goods	1056.5	782.9	408.9	463.8	752.2	964.1	833.1	858.1	883.8
1.7 Other minerals and metals	310.0	206.5	310.3	311.9	312.2	323.9	323.9	333.6	438.5
2. MANUFACTURED GOODS	887.4	1113.7	1395.9	1069.3	1111.0	1182.8	1301.1	1496.2	3083.9
3. ALL OTHER GOODS	55.1	55.4	81.5	63.3	40.8	39.8	41.8	43.9	58.8
4. TOTAL GOODS (F.O.B.)	3170.1	2988.2	2921.1	3004.5	3215.3	3741.7	4525.8	6554.0	10524.4
5. NON-FACTOR SERVICES	3044.9	3345.4	3314.3	3077.0	3221.9	1732.1	1857.5	1985.1	2718.4
6. TOTAL GOODS AND NFS	6215.0	6333.6	6235.4	6081.5	6437.2	5473.7	6383.3	8539.1	13242.8

PRICE INDEX (1975 =100)

1.1 Cotton	67.01	112.76	118.24	100.00	141.82	130.52	134.87	142.71	207.44
1.2 Coffee	76.62	94.99	101.33	100.00	219.36	370.65	283.35	264.96	219.06
1.3 Sugar	35.45	39.51	130.96	100.00		.00	.00	.00	.00
1.4 Petroleum, oil, lubricants	20.19	27.26	93.14	100.00	106.67	116.97	116.97	125.74	194.35
1.5 Silver	38.02	51.11	106.62	100.00	110.91	99.84	104.84	115.32	204.30
1.6 Other agricultural goods	52.31	74.16	125.89	100.00	82.79	80.65	89.33	103.50	186.10
1.7 Other minerals and metals	58.22	88.34	121.15	100.00	97.37	100.39	110.47	122.46	227.43
2. MANUFACTURED GOODS	61.00	72.29	88.55	100.00	107.19	117.56	125.80	133.97	190.01
3. ALL OTHER GOODS	60.99	72.17	88.49	100.00	107.05	117.60	125.84	134.02	190.08
4. TOTAL GOODS (F.O.B.)	54.14	71.62	102.67	100.00	108.11	114.33	119.42	127.46	194.50
5. NON-FACTOR SERVICES	62.17	73.60	92.45	100.00	102.25	129.14	149.63	162.43	259.93
6. TOTAL GOODS AND NFS	58.08	72.67	97.24	100.00	105.18	136.25	146.57	151.51	230.43

CURRENT VALUES
(MILLIONS OF DOLLARS)

1.1 Cotton	147.9	166.0	181.9	173.7	240.7	182.7	215.3	239.2	423.1
1.2 Coffee	85.8	157.0	154.2	184.2	356.9	454.1	406.2	341.8	268.5
1.3 Sugar	102.1	114.6	192.0	132.5	.0	.0	.0	.0	.0
1.4 Petroleum, oil, lubricants	21.4	24.7	123.2	460.1	556.8	915.9	1791.8	4185.5	10684.6
1.5 Silver	51.1	69.8	148.9	145.7	160.4	185.3	200.4	227.1	480.4

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	1972	1973	1974	1975	1976	1977	1978	1979	1985
1.6 Other agricultural goods	552.6	580.6	514.7	463.8	622.8	777.5	744.2	888.1	1644.7
1.7 Other minerals and metals	180.5	182.4	376.0	311.9	304.0	325.1	357.8	408.5	997.3
2. MANUFACTURED GOODS	541.3	805.1	1236.1	1069.3	1190.9	1390.5	1636.7	2004.6	5859.7
3. ALL OTHER GOODS	33.6	40.0	72.1	63.3	43.7	46.8	52.6	58.8	111.8
4. TOTAL GOODS (F.O.B.)	1716.3	2140.2	2999.1	3004.5	3476.2	4278.0	5404.9	8353.6	20470.2
5. NON-FACTOR SERVICES	1893.1	2462.3	3064.1	3077.0	3294.3	3179.7	3951.1	4583.7	10044.6
6. TOTAL GOODS AND NFS	3609.4	4602.5	6063.2	6081.5	6770.5	7457.7	9356.0	12937.3	30514.8

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ATTACHMENT 4 A

BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE

	1972	1973	1974	1975	1976	1977	1978	1979	1980
	ACTUAL					EST.	PROJECTED		
SUMMARY OF BALANCE OF PAYMENTS									
1. EXPORTS (INCLUDING NFS)	3609.4	4602.5	6063.2	6081.5	6770.5	7457.7	9356.0	12937.4	17498.9
2. IMPORTS (INCLUDING NFS)	4016.0	5236.8	7763.9	8636.6	8224.8	7600.6	9825.6	12156.8	15008.0
3. RESOURCE BALANCE	-406.6	-634.3	-1700.7	-2555.1	-1454.3	-142.9	-469.7	780.6	2490.8
4. NET FACTOR SERVICE INCOME	-574.1	-855.2	-1288.8	-1749.4	-2143.9	-2064.5	-2506.8	-2680.3	-2771.0
.1 NET INTEREST PAYMENTS	-386.2	-575.7	-897.8	-1266.5	-1700.3	-1795.1	-1914.8	-1994.1	-1979.0
OF WHICH ON PUB M< LOANS	-260.7	-357.2	-569.4	-627.5	-1069.8	-1234.0	-1493.4	-1657.6	-1719.5
.2 DIRECT INVESTMENT INCOME	-314.5	-419.8	-549.1	-657.5	-636.6	-480.8	-823.5	-940.7	-1072.1
.3 WORKERS REMITTANCES (NET)	126.7	140.4	158.1	174.6	193.0	211.3	231.4	254.6	280.0
5. CURRENT TRANSFERS (NET)	64.4	74.5	113.4	123.3	175.8	199.8	218.5	238.9	261.3
6. BALANCE ON CURRENT ACCOUNT	-916.3	-1415.0	-2876.1	-4181.2	-3422.4	-2007.7	-2758.0	-1660.8	-18.9
7. PRIVATE DIRECT INVESTMENT	300.8	456.3	678.1	748.8	588.7	437.3	679.7	781.7	875.5
8. GRANTS & GRANT-LIKE FLOWS	.0	.0	.0	.0	.0	.0	.0	.0	.0
PUBLIC M< LOANS									
9. DISBURSEMENTS	1011.7	2115.4	3014.5	4011.1	5506.4	6341.9	5985.9	5461.6	4170.5
10. AMORTIZATION	-590.5	-794.4	-623.6	-761.3	-1216.6	-2461.7	-3635.9	-4293.2	-4750.8
11. NET DISBURSEMENTS	421.2	1321.0	2390.9	3249.8	4289.9	3880.2	2350.0	1168.5	-580.4
OTHER M< LOANS									
12. DISBURSEMENTS	.0	.0	.0	.0	.0	-75.3	200.0	.0	100.0
13. AMORTIZATION	.0	.0	.0	.0	.0	.0	.0	.0	.0
14. NET DISBURSEMENTS	.0	.0	.0	.0	.0	-75.3	200.0	.0	100.0
15. USE OF IMF RESOURCES	.0	.0	.0	.0	480.0	.0	.0	.0	.0
16. SHORT-TERM CAPITAL TRANSACTIONS	-249.0	596.2	655.6	842.8	839.8	-1231.3	-200.0	-200.0	-200.0
17. CAPITAL TRANSACTIONS NET	707.9	-836.3	-811.5	-495.1	-3109.3	-532.5	100.0	300.0	300.0
18. CHANGE IN RESERVES (- = INCREASE)	-264.7	-122.3	-36.9	-165.1	333.1	-470.7	-371.6	-389.3	-476.2
19. NET FOREIGN EXCHANGE (1) RESERVES (END OF PERIOD)	1675.8	1798.1	1835.0	2000.1	1667.0	1797.6	2169.2	2558.5	3034.6

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ATTACHMENT 4A

PAGE: 1A
1980

	1972	1973	1974	1975	1976	1977	1978	1979	1980
GRANT AND LOANS COMMITMENTS									
1. OFFICIAL GRANTS	.0	.0	.0	.0	.0	.0	.0	.0	.0
2. TOTAL PUBLIC M< LOANS	1235.1	3047.5	3184.1	4304.1	5370.5	6123.3	6432.2	5908.9	4591.4
.1 IBRD	277.0	270.0	289.0	310.0	410.0	162.0	630.0	670.0	680.0
.2 IDA	.0	.0	.0	.0	.0	.0	.0	.0	.0
.3 OTHER MULTILATERAL	73.2	89.5	102.0	121.8	171.8	280.0	300.0	336.0	375.0
.4 GOVERNMENTS	58.7	420.3	130.5	317.2	68.6	250.0	218.8	271.7	319.8
.5 OF WHICH CENTRALLY PLANNED ECONOMIES (2)	.0	.0	.0	2.0	2.4	.0	.0	.0	.0
.6 SUPPLIERS	65.8	52.6	64.7	114.7	99.5	150.0	307.7	373.9	448.3
.7 FINANCIAL INSTITUTIONS	623.9	2110.5	2547.8	3300.1	4454.8	468.1	875.1	1462.9	1084.2
.8 BONDS	136.5	104.6	50.0	140.3	165.9	600.0	600.0	600.0	600.0
.9 PUBLIC LOANS NEI	.0	.0	.0	.0	.0	4213.1	3500.5	2194.4	1084.2
3. OTHER M< LOANS (WHERE AVAILABLE)	.0	.0	.0	.0	.0	-75.3	200.0	.0	100.0
MEMORANDUM ITEMS									
1. GRANT ELEMENT OF TOTAL COMMITMENTS	.139	.138	.109	.057	.058	8.471	10.126	12.164	14.863
2. AVERAGE INTEREST (PERCENT)	.071	.073	.076	.082	.080	.077	.079	.078	.080
3. AVERAGE MATURITY (YEARS)	13.700	12.400	11.100	6.900	6.600	7.691	8.482	9.547	10.928

1/ NET FOREIGN ASSETS: US\$ EQUIVALENT OF LINE 31.

INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA, NORTH KOREA, NORTH VIETNAM.

DATE OF LATEST UPDATE 07/26/78

ATTACHMENT 4 A

BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE

	1981	1982	1985	1990	1995
	PROJECTED				

SUMMARY OF BALANCE OF PAYMENTS

1. EXPORTS (INCLUDING NFS)	19519.3	22599.8	30514.8	59800.5	
2. IMPORTS (INCLUDING NFS)	18417.4	21822.8	33691.5	63755.1	
3. RESOURCE BALANCE	1101.9	777.0	-3176.6	-3954.7	
4. NET FACTOR SERVICE INCOME	-2792.9	-2924.3	-3952.2	-7389.2	
.1 NET INTEREST PAYMENTS	-1881.7	-1879.2	-2396.7	-4483.3	
OF WHICH ON PUB M< LOANS	-1659.3	-1698.0	-2308.5	-4623.3	
.2 DIRECT INVESTMENT INCOME	-1219.1	-1383.9	-2006.4	-3632.1	
.3 WORKERS REMITTANCES (NET)	308.0	338.8	451.0	726.3	
5. CURRENT TRANSFERS (NET)	285.9	312.9	410.6	648.1	
6. BALANCE ON CURRENT ACCOUNT	-1405.0	-1834.3	-6718.2	-10695.8	
7. PRIVATE DIRECT INVESTMENT	980.5	1098.2	1542.8	2622.8	
8. GRANTS & GRANT-LIKE FLOWS	.0	.0	.0	.0	
PUBLIC M< LOANS					
9. DISBURSEMENTS	5368.7	5944.7	10112.8	19195.1	
10. AMORTIZATION	-4574.9	-4539.9	-4294.4	-9947.7	
11. NET DISBURSEMENTS	793.7	1404.8	5818.4	9247.5	
OTHER M< LOANS					
12. DISBURSEMENTS	100.0	100.0	100.0	100.0	
13. AMORTIZATION	.0	.0	.0	.0	
14. NET DISBURSEMENTS	100.0	100.0	100.0	100.0	
USE OF IMF RESOURCES	.0	.0	.0	.0	
SHORT-TERM CAPITAL					
TRANSACTIONS	-200.0	-200.0	.0	.0	
17. CAPITAL TRANSACTIONS NET	300.0	.0	.0	.0	
18. CHANGE IN RESERVES					
(- = INCREASE)	-569.4	-568.7	-742.5	-1273.5	
19. NET FOREIGN EXCHANGE (1)					
RESERVES (END OF PERIOD)	3604.0	4172.7	6154.8	11175.4	

A T T A C H M E N T 4A

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	<u>1981</u>	<u>1982</u>	<u>1985</u>	<u>1990</u>	<u>1995</u>
<u>GRANT AND LOANS COMMITMENTS</u>					
1. OFFICIAL GRANTS	.0	.0	.0	.0	
2. TOTAL PUBLIC M< LOANS	5769.0	6295.2	10389.4	19637.4	
.1 IBRD	690.0	700.0	700.0	700.0	
.2 IDA	.0	.0	.0	.0	
.3 OTHER MULTILATERAL	375.0	375.0	375.0	375.0	
.4 GOVERNMENTS	368.8	426.1	634.5	1205.4	
.5 OF WHICH CENTRALLY PLANNED ECONOMIES (2)	.0	.0	.0	.0	
.6 SUPPLIERS	531.0	611.4	909.6	1703.9	
.7 FINANCIAL INSTITUTIONS	1922.5	2507.9	5019.2	10537.2	
.8 BONDS	600.0	600.0	600.0	600.0	
.9 PUBLIC LOANS NET	1281.7	1074.8	2151.1	4515.9	
3. OTHER M< LOANS (WHERE AVAILABLE)	100.0	100.0	100.0	100.0	
<u>MEMORANDUM ITEMS</u>					
1. GRANT ELEMENT OF TOTAL COMMITMENTS	14.597	15.188	14.505	14.483	
2. AVERAGE INTEREST (PERCENT)	.079	.079	.077	.076	
3. AVERAGE MATURITY (YEARS)	10.248	10.213	9.043	8.224	

1/ NET FOREIGN ASSETS: US\$ EQUIVALENT OF LINE 31.

2/ INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA, NORTH KOREA, NORTH VIETNAM.

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MEXICO
ATTACHMENT 4 B

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DEBT AND CREDITWORTHINESS

	1972	1973	1974	1975	1976	1977	1978	1979	1980
	ACTUAL					EST.	PROJECTED		
<u>MEDIUM AND LONG TERM DEBT (DISBURSED ONLY)</u>									
TOTAL DEBT OUTSTANDING (DOD END OF PERIOD)	3942.1	8919.6	11639.4	15616.5	20297.2	22715.4	25265.4	26433.9	25953.5
PUBLIC DEBT SERVICE	-851.2	-1151.6	-1193.0	-1588.8	-2286.4	-3695.7	-5129.3	-5950.7	-6470.3
INTEREST	-260.7	-357.2	-569.4	-827.5	-1069.8	-1234.0	-1493.4	-1657.6	-1719.5
OTHER M< DEBT SERVICE	.0	.0	.0	.0	.0	-193.9	-113.2	-61.6	-20.4
TOTAL DEBT SERVICE	-851.2	-1151.6	-1193.0	-1588.8	-2286.4	-3889.6	-5242.5	-6012.3	-6490.7
<u>DEBT BURDEN</u>									
DEBT SERVICE RATIO	23.6	25.0	19.7	26.1	33.6	48.2	53.5	45.1	36.4
DEBT SERVICE RATIO (1)	32.3	34.1	28.7	36.9	43.0	58.6	64.8	53.7	43.2
DEBT SERVICE/GDP	2.1	2.3	1.8	2.0	2.9	6.5	6.7	6.5	5.3
PUB. DEBT SERVICE/GOV. REVENUE	23.1	22.2	16.7	16.4	28.9	31.2	33.9	29.4	24.3
<u>TERMS</u>									
INT. ON TOTAL DOD/TOTAL DOD	6.6	6.6	7.1	7.4	6.9	6.3	6.4	6.5	6.7
TOTAL DEBT SERVICE/TOTAL DOD	21.6	21.3	14.8	14.1	14.7	20.7	23.9	25.9	25.3
<u>DEPENDENCY RATIOS FOR M&LT DEBT</u>									
GROSS DISB./IMPORTS (INCL.NFS)	25.2	40.4	38.8	46.4	66.5	82.4	63.0	44.9	28.5
NET TRANSFER/IMPORTS(INCL.NFS)	4.0	18.4	23.5	28.0	38.9	31.3	9.6	-4.5	-14.8
NET TRANSFER/GROSS DISB.	15.9	45.6	60.4	60.4	58.5	37.9	15.3	-10.1	-52.0
<u>EXPOSURE</u>									
BRD DISB./GROSS TOTAL DISB.	9.1	5.6	6.5	4.7	2.6	4.5	5.4	7.5	11.5
BANK GROUP DISB./GROSS TOTAL DISBURSEMENTS	9.1	5.6	6.5	4.7	2.6	4.5	5.4	7.5	11.5
IBRD DOD/TOTAL DOD	18.4	9.1	8.4	7.2	6.0	6.4	6.8	7.8	9.4
BANK GROUP DOD/TOTAL DOD	18.4	9.1	8.4	7.2	6.0	6.4	6.8	7.8	9.4
IBRD DEBT SERVICE/TOTAL DEBT SERVICE	8.5	7.6	7.9	7.3	5.8	4.0	3.5	3.7	4.2
BANK GROUP DEBT SERVICE/TOTAL DEBT SERVICE	8.5	7.6	7.9	7.3	5.8	4.0	3.5	3.7	4.2

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OUTSTANDING DEC. 31, 1976

EXTERNAL DEBT (DISBURSED ONLY)	AMOUNT	PERCENT
IBRD	1222.5	7.9
BANK GROUP	1222.5	7.9
OTHER MULTILATERAL	602.3	3.9
GOVERNMENTS	801.8	5.2
OF WHICH CENTRALLY PLANNED ECONOMIES (2)	4.0	.0
SUPPLIERS	426.6	2.7
FINANCIAL INSTITUTIONS	11692.7	75.2
BONDS	801.3	5.2
PUBLIC DEBT NET	.0	.0
TOTAL PUBLIC M< DEBT	15547.2	100.0
OTHER PUBLIC M< DEBT	4750.0	30.6
OTHER M< DEBT	.0	.0

DEBT PROFILE

TOTAL DEBT SERVICE 1977-81/TOTAL DOD END OF 1976 -137.4

1/INCLUDING NET DIRECT INVESTMENT INCOME
2/INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA,
NORTH KOREA, NORTH VIETNAM.

DEBT AND CREDITWORTHINESS

1981 1982 1985 1990 1995

PROJECTED

MEDIUM AND LONG TERM DEBT (DISBURSED ONLY)

TOTAL DEBT OUTSTANDING (DOD
END OF PERIOD) 26847.2 28352.0 42432.9 81963.1

PUBLIC DEBT SERVICE -6234.2 -6237.9 -6602.9 -14571.0
INTEREST -1659.3 -1698.0 -2308.5 -4623.3
OTHER M< DEBT SERVICE -23.4 -24.5 -30.0 -30.0
TOTAL DEBT SERVICE -6257.6 -6262.4 -6632.9 -14601.0

DEBT BURDEN

DEBT SERVICE RATIO 31.4 27.2 21.3 24.1
DEBT SERVICE RATIO (1) 38.3 33.8 28.3 30.5
DEBT SERVICE/GDP 4.5 3.8 2.7 3.2
PUB. DEBT SERVICE/GOV. REVENUE 20.3 17.3 13.0 14.2

TERMS

INT. ON TOTAL DOD/TOTAL DOD 6.3 6.1 5.5 5.7
TOTAL DEBT SERVICE/TOTAL DOD 23.6 22.3 15.9 17.9

DEPENDENCY RATIOS FOR M< DEBT

GROSS DISB./IMPORTS (INCL.NFS) 29.7 27.7 30.3 30.3
NET TRANSFER/IMPORTS(INCL.NFS) -4.3 -1.0 10.6 7.4
NET TRANSFER/GROSS DISB. -14.4 -3.6 35.1 24.3

EXPOSURE

IBRD DISB./GROSS TOTAL DISB. 9.5 9.2 6.6 3.6
BANK GROUP DISB./GROSS TOTAL DISBURSEMENTS 9.5 9.2 6.6 3.6
IBRD DOD/TOTAL DOD 10.5 11.3 10.1 6.5
BANK GROUP DOD/TOTAL DOD 10.5 11.3 10.1 6.5
IBRD DEBT SERVICE/TOTAL DEBT SERVICE 5.2 6.5 9.8 7.2
BANK GROUP DEBT SERVICE/TOTAL DEBT SERVICE 5.2 6.5 9.8 7.2

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MEXICO
ATTACHMENT 4B
OUTSTANDING DEC. 31, 1985

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EXTERNAL DEBT (DISBURSED ONLY)	AMOUNT	PERCENT
IBRD	4300.8	11.1
BANK GROUP	4300.8	11.1
OTHER MULTILATERAL	2893.3	7.5
GOVERNMENTS	1787.8	4.6
OF WHICH CENTRALLY PLANNED ECONOMIES (2)	.1	.0
SUPPLIERS	4193.4	10.8
FINANCIAL INSTITUTIONS	16196.7	41.7
BONDS	4294.4	11.1
PUBLIC DEBT NET	5134.1	13.2
TOTAL PUBLIC M< DEBT	38800.5	100.0
OTHER PUBLIC M< DEBT	3632.4	9.4
OTHER M< DEBT	-66.7	-.2

1/INCLUDING NET DIRECT INVESTMENT INCOME
2/INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA,
NORTH KOREA, NORTH VIETNAM.

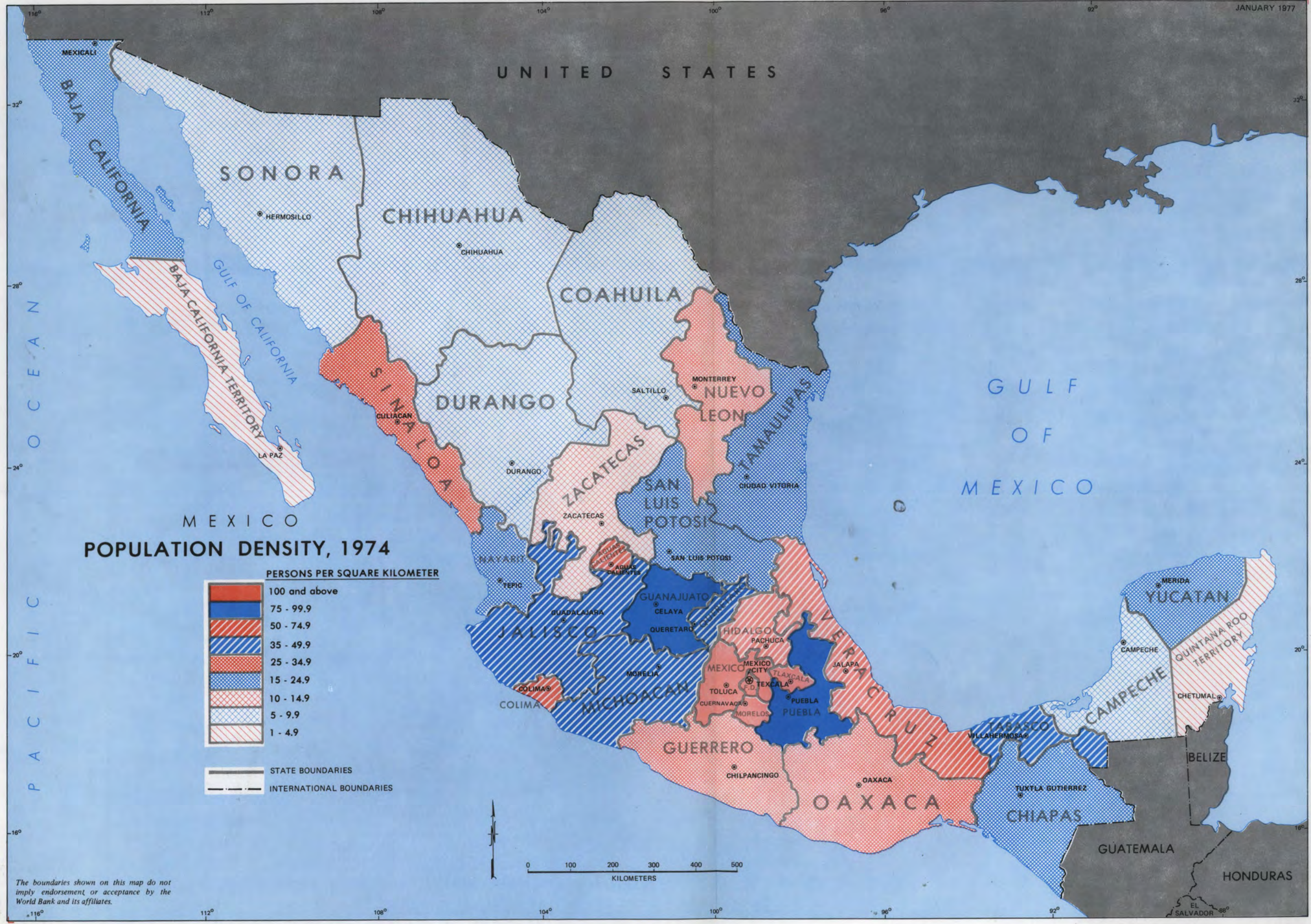
MEXICO

ECONOMIC AND SECTOR WORK PROGRAM

1. The proposed economic and sector work program has four main elements:
 - (i) Major reviews of the economic situation and policies, with the primary purpose of serving as a basis for discussions with the Mexican authorities, twice in every six-year Mexican Government cycle. The first, about 1 year after a new Administration takes offices, can assess the situation facing the Government and the policies it intends to adopt. The second, about 3 years later, can assess progress and analyse policies for the last two years of the Administration. These review will normally lead to grey cover reports. The next such review will take place in 1980.
 - (ii) Economic monitoring about twice every year, with the primary purpose of keeping up to date and informing Bank management of economic development in Mexico. The written products will normally be limited to back-to-office memos, CPP's, and economic sections of President's Report.
 - (iii) Special, in-depth studies of particularly important development issues in Mexico. Subjects will normally be of great interest to both the Mexican authorities and the Bank, and in many cases will be carried out jointly with the Mexicans. Issues to be covered are (a) income distribution, basic needs and related topics, (b) public sector management, (c) technology, (d) regional policies, and (e) agricultural allocation policies.
 - (iv) Sectoral work focused specifically on identification of new projects and/or important sectoral policy questions.
2. The table on the following page describes the studies now planned.

MEXICO - ECONOMIC AND SECTOR WORK PROGRAM

Subject	Type of Work	Remarks	Responsible Department	Total Man Weeks Required				
				FY80	FY81	FY82	FY83	FY84
I. Economic--macro								
1. Monitoring	Short small mission about twice per year; BTO memos only	Main audience is Bank management and (through President's Reports) the Board	LC1	40	40	8	40	-
2. Longer-term and deeper analysis	Larger missions, about one year and 4 years after a new government takes office	Main audience is Mexicans; also Bank management and Board	LC1	-	-	200	24	180
II. Economic--poverty								
3. Income distribution (overall)	What happened (since 1963); why did it happen; who are the poor	Wide audience in Mexico, Bank, elsewhere. Do jointly with Mexicans	LC1	118	-	-	-	-
4. Income distribution (agriculture)	Analyse effects of agriculture sector policies on evolution of rural income distribution and poverty	Complementary to (3) above.	LC1	-	24	-	-	-
5. Income distribution (fiscal incidence)	Analyse distributive effects of taxation and government spending	Complementary to (3) above.	LC1	24	-	-	-	-
6. Basic Needs	Analyse basic needs gaps and options to fill the gaps	Coordinate with possible projects.	PPR/LC1	-	36	-	24	-
III. Economic - Other								
7. Public Sector subsidies	Quantify subsidies; analyse why they exist	Main audience is Mexicans. Closely related to (5) above. Could lead to more a comprehensive study on public enterprises.	LC1/DED	-	24	-	72	-
8. Technology	Identify current state of technological development in Mexico; what institutions are doing what; legislation. Identify elements of an appropriate strategy for technological development	Main audience is Mexicans and other LDCs. Do jointly with Mexicans.	PAS/LC1	28	12	-	-	-
9. Urban-regional	Analyse actual urban/regional policies (deliberate and incidental) and their effects	Main audience is Mexicans. Coordinate with possible projects.	DED/LC1	20	40	-	-	-
10. Agriculture: Self-sufficiency in food	Analyse options regarding all relevant instruments; estimate cost of achieving self-sufficiency; analyse least-cost way to do it	Main audience is Mexicans. CHAC could be useful. Very important to have active Mexican collaboration	LC1	-	-	-	24	-
11. Support to operational work	Estimates of shadow prices, foreign exchange component, etc.	Main audience is Bank staff	LC1	20	20	20	20	20
IV. Sector								
12. Capital goods	Programming study	Main audience is Mexicans. Coordinate with possible projects.	DED	4	-	-	-	-
13. Steel	Programming study	Main audience is Mexicans. Coordinate with possible projects.	DED	10	-	-	-	-
14. Vocational training	Sector Study	Possible project identification in collaboration with Mexicans.	LCP/EDC	-	36	-	-	-



The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.

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Red
Magenta
White
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Black

MEXICO

Political Situation ^{1/}

Government

1. The official name of the republic of Mexico is the Estados Unidos Mexicanos (United Mexican States). It is divided into 32 states, including the Federal District, in which the capital is located, and the two territories of Baja California Sur and Quintana Roo. Although the country has a federal and democratic constitution, modelled on that of the United States of America, the President is the dominant decision-maker for his six year term in office. He cannot be re-elected. There is a Senate of 64 members serving for six years and a Chamber of Deputies of 194 members servicing for three year terms, but neither the Senate nor the Chamber of Deputies is asked to take any initiative and they commonly limit themselves to approving measures proposed by the President. The states have only limited powers and their governors control the state legislature and municipal officials very much as a reflection of the President, who can remove them from office at will.

2. This system has provided Mexico with a stable and effective government for nearly half a century. There has been no violent constitutional change since 1920, although in 1968 and 1971, there were serious civil disturbances, led by students, in the Federal District, and there have been intermittent outbreaks of rural (and a few urban) guerrilla activities in recent years.

3. The government party, the Partido Revolucionario Institucional (PRI), invariably sweeps all elections and has done so since it was organized, under another name, in 1929. Members join one of the party's three sections: the Confederación Nacional Campesina (for farm workers, etc.), the Confederación de Trabajadores Mexicanos (for urban workers and approved union members) and the Confederación Nacional de Organismos Populares. The PRI is in many ways more a collection of interest groups than a unified party, the chief cohesive factor being a complete loyalty to the President. There are three other recognized political parties, of which only one of any importance is the conservative Partido de Acción Nacional (PAN).

4. The present president, Lic. José López Portillo, took office on December 1, 1976. In the elections he polled about 95 percent of the vote which was 72 percent of the 25.9 mm electorate. The National Action Party (PAN) failed to agree on an electoral candidate while the two other traditional opposition parties--the Popular Socialists and Authentic Revolutionaries--decided to support the PRI candidate. The economic

^{1/} Paras 1-4 of the recent CPP summarize the situation.

policy of successive administrations has been to foster rapid industrialization as a basis for overall growth. Successive governments have also developed a policy of "Mexicanisation" of industry, and in May 1973 a new foreign investment law came into force which by and large limits foreign participation in Mexican businesses to 49 percent. However, its long record of political stability and economic growth has made Mexico very popular with investors since the end of the second world war. Mexico has also, mainly through various government agencies like the development bank, Nacional Financiera, obtained many foreign loans and floated a number of bond issues in Europe and the USA. Full debt service has been paid on all external debt issued or guaranteed by the federal government since the adoption of the present constitution in 1917. Mexico is a member of the Latin American Free Trade Association but not of the General Agreement on Tariffs and Trade.

The Changes

5. In the tradition of the PRI, a "centrist" administration has succeeded a "leftist" one, and President López Portillo's Government is following prudent fiscal and monetary policies designed to set the stage for the private sector to take the initiative in stimulating economic growth and providing employment. By and large, the present administration gets on well with the established industrial groups. On the labor front, the trade union movement continues to cooperate with the Government's economic program, and has accepted wage settlements within the general guidelines established to contain inflation. However, the upper hierarchy of the trade union movement is aging and, after Sr. Fidel Velázquez (the George Meany of Mexico), a struggle for succession could strain the loyalty and predictability of the trade union force.

6. On September 1, 1978, President López Portillo presented his second "State of the Nation" report. This is the occasion when the President reviews the achievements of the previous year and presents major policies and programs for the future. The President has reiterated his commitment for political liberalization. The Election Commission has given provisional recognition (to be confirmed after their showings at the polls in 1979) to three opposition groups--the Communist Party, Democratic Party and Workers Party--and 15 other requests are under its consideration. A national registry of persons under detention has been prepared and an amnesty bill introduced in the Congress. A law guaranteeing the right to information has been proposed and dissidents have been invited to offer constructive criticism for social change. Action against corruption in public administration would be intensified.

7. With the above reforms, seven political parties will be active in Mexico:

- PRI (the Institutional Revolutionary Party) - Carlos Sensores Perez, the President, supposed to be in that position with the support of the labor movement despite the reservations of López Portillo.

- PAN (National Action Party) - Abel Vicencio Tover, President.
- PARM (Authentic Revolutionary Party) - Antonio Gomez Velasco, President.
- PPS (Popular Socialist Party) - Jorge Cruickshank García, Secretary-General.
- PDM (Democratic Party of Mexico) - Magaña Negrete, President.
- PST (Socialist Labor Party) - Rafael Aguilar Talamantis, Secretary-General.
- PCM (Communist Party of Mexico) - Arnaldo Martinez Verdugo, Secretary-General.

The last three of these have received conditional registration, and the results of June 1979 elections for the Chamber of Deputies would be important in settling their future role in the political process.

Cabinet Changes and the Succession

8. Though there have been occasional rumors of changes in the composition of President López Portillo's cabinet, no important ones have taken place since two members of the economic team left the Government at the end of 1977 when differences on the 1978 budget arose. The forces in favor of economic restraint have prevailed, and this continues to be the tone of the 1979 budget.

9. As Mr. López Portillo enters his third year in office and approaches his fourth, there will doubtlessly be increasing preoccupation over who might succeed him. PRI's candidates have traditionally been members of the cabinet, often the Secretary of Gobernación (Interior) who, in this case, Reyes Heróles, is disqualified by a constitutional provision that the President must be of Mexican-born parents. Two other flamboyant and powerful personalities--Prof. Hank Gonzales (Mayor of the Federal District) and José Andrés Oteyza (Minister for National Property and Industries) are also debarred on the same grounds. Prof. Hank had started a movement to change Article 82 of the constitution (barring children of emigrants from Presidency) for the 1982 elections, but the move has petered out. Future cabinet changes are therefore likely to be watched closely, not so much for implied shifts in policies, but because they may suggest who the next President of Mexico might be.

10. On the international scene, Mexico carefully maintains and tries to build up its position as a third world country--in the last year or so President López Portillo has visited the Soviet Union, Spain, Japan and the People's Republic of China. Mexico's reestablished relations with Spain, after decades of interruption while General Franco was in

power, was received with widespread enthusiasm at home. The country's new-found petroleum reserves appear to be drawing attention abroad as numerous countries seek to improve their relations with Mexico. Among the important persons scheduled to visit Mexico in the coming months are: Secretary-General Kurt Waldheim, Pope John Paul II, Presidents Carter and Valery Giscard d'Estaing.

Mexico Division
Programs Dept. (LACI)
January 3, 1979

MEXICO-US RELATIONS

1. Two attached notes--one from the State Department and another from Washington Post (December 15, 1978) on PRM 41--summarize the bilateral relations as seen by US policy makers. Mr. McNamara knows more about these issues than most of us in the Division, therefore I will keep this paper short. President Kennedy, addressing the Mexicans, had stated, "geography made us neighbors, tradition made us friends, economy made us partners"; given the personalities of the two Presidents presently guiding USA and Mexico, the bilateral relations could revert to the warmth of the Kennedy era.

2. Since President Lopez Portillo assumed office, I was invited by Mr. Edward R. Fried twice to discuss the possibility of the Bank handling a multi-billion dollar fund to promote employment creation and rural development in Mexico. I had requested Mr. Fried to discuss the proposal with Bank's senior management as several basic policy issues were involved. During a subsequent luncheon discussion with Messrs. Fried and officials from the White House, Treasury and the State Department (Messrs. Yudelman and Schumacher from the Bank were also present) I had given my assessment, saying that acceleration of the rate of development was an essential prerequisite for greater labor absorption within Mexico. The latter would require not only considerably greater investment in the economy--particularly in the rural sector and in small enterprises--but also greater opportunities for trade. I find missing from the papers referred to in para. 1 an appreciation of the new export opportunities that an accelerated growth rate of the Mexican economy would present to the US firms.

Bilateral Trade

3. Attached tables 'A' and 'B' and the accompanying chart summarize US-Mexico bilateral trade.

4. Our economic analysis concludes that Mexico is poised for a substantial acceleration in its GDP growth rate--up from about 2-3% per annum in 1976 and 1977, 6.5% in 1978, to 9% in real terms per year in the period 1979-82. During our economic dialogue we have stressed to the Government the importance of policies for opening the economy to international trade for maximizing the rate of employment creation. We project that Mexican imports will increase from about \$9 billion in 1978 to \$19 billion in 1982 under such a strategy. Traditionally, close to two-thirds of Mexican imports have originated in USA; with some efforts US suppliers should be able to bag a major share of the \$10 billion incremental imports into Mexico.

5. Employment situation in Mexico can be considerably helped if the US would be looking to Mexico not only as a supplier of oil and gas (these have low employment potential) but also accept goods with high labor content such as fruits, vegetables and animal products as well as manufactured goods. Without greater access to the export markets--traditionally over two thirds to USA--for these goods, Mexico would not be able to adopt the growth

strategy recommended by us. Bank's recommended strategy for growth assumes substantial increase in non-oil exports from Mexico, rising from about \$7.3 billion in 1978 to \$12.0 billion in 1982.

Other Points

6. The Mexican officials have expressed the wish that all bilateral issues between US and Mexico be discussed between the two countries, without the assistance of an international agency; to be effective, Bank's financial and technical assistance, and policy advice, should be kept clearly separated from US initiatives. We have respected the Mexican sensitivities, and the officials have been appreciative of our discretion. Press reported that senior US officials (Mondale, Vance and Blumenthal) have offered in the past to Mexico increased assistance from the Bank (I must confess that I did not find a corroboration in the official transcripts), and with their usual elegance, the Mexican officials have interpreted these as goodwill of the US Administration in supporting Bank loans for Mexican projects. US Executive Director has graciously supported the Mexican projects over the last two years. We find a close parallelism among the Mexican requirements from the Bank, our work in the country and US interests in Mexico.

Attachments (4)

January 4, 1979
Devbrat Dutt
Programs I, Division 1A
LAC

MEXICO-US TRADE RELATIONS

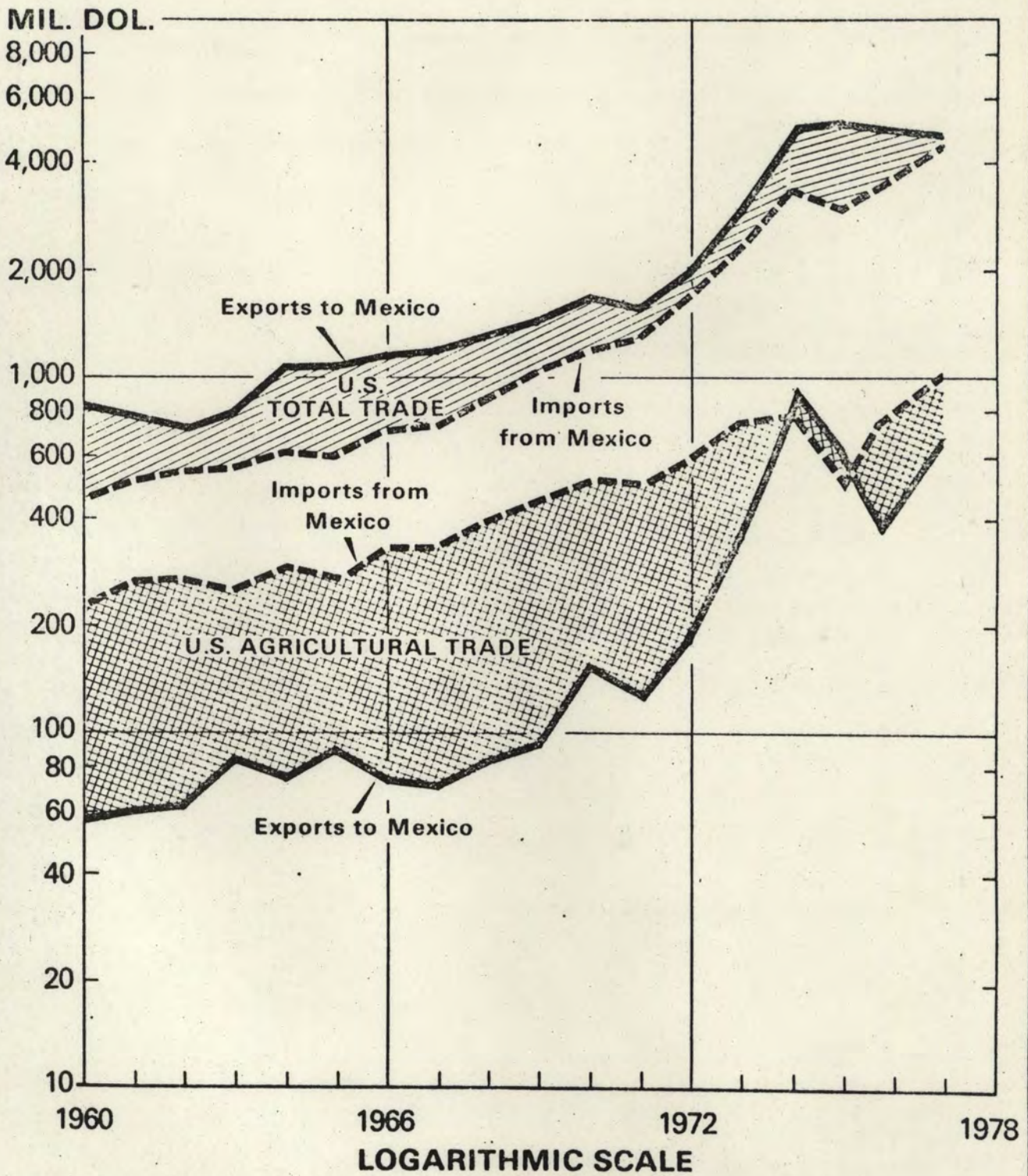
A. Importance of the US to Mexico

	(US\$ million)				
	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Exports	1,689.8	2,047.3	5,281.6	5,934.7	6,590.8
US Share (%)	71.9	67.7	68.6	68.9	69.1
Imports	1,954.1	3,247.2	8,237.3	7,858.6	7,256.0
US Share (%)	67.5	62.6	61.7	61.6	62.9

B. Share of Mexico in the US Imports of some Selected Agriculture Commodities

	(US\$ million)		
	<u>Mexico exports to US</u>	<u>Total US Imports</u>	<u>Mexico's Share</u>
	October 77 - August 78		
<u>Agriculture</u>			
Total	1,013.1	12,769,790	7.90
Coffee	213,470	3,226,780	6.62
Cattle	96,355	210,236	45.83
Beef and Veal	45,414	964,877	4.71
Strawberries, frozen	17,930	22,148	80.96
Pineapples, canned	8,066	78,797	10.24
Oilseeds and oilnuts	13,599	44,870	30.31
Molasses, inedible	18,604	62,910	29.57
Fresh tomatoes	160,844	161,623	99.52
Malt liquors	11,848	190,127	6.23
Tobacco, unmanufactured	17,253	391,116	5.06

U.S. - MEXICAN TRADE



USDA

Fig. 1

NEG ESCS 1027-78(9)

US-MEXICO RELATIONS

December 1978

1. Background: The February 1977 visit of President Lopez Portillo, the first foreign head of state to meet with President Carter, illustrates the importance the US Administration attaches to our relationship with our closest Latin American neighbor. President Carter plans to visit Mexico in February 1979.

Across a common border of almost 2,000 miles, the US and Mexico conduct extensive trade, and tourists move freely back and forth. We cooperate on flood control projects and in the use of irrigation waters, and several joint cultural and scientific programs are also underway. Although relations with Mexico are friendly and harmonious, several important issues, discussed below, impinge on our relationship.

2. Illegal immigration: The flow of illegal aliens from Mexico to the US is a major bilateral issue. Last year alone, US Immigration and Naturalization Service agents apprehended about 1 million undocumented aliens, mostly along the border, and returned them to Mexico. Some American employers as well as the Mexican Government maintain that the illegals perform unskilled work that most American citizens will no longer do. A principal reason for the Mexican Government's laissez-faire attitude toward Mexican aliens in the US is economic -- jobs are scarce in Mexico and the money the aliens send home to relatives helps bolster the Mexican economy.

Many US labor, civic, and public interest groups see the aliens taking jobs away from unemployed Americans or burdening social and community services. Regardless of their economic impact, the illegals are here in violation of US laws. They live in a sub-culture that places them outside the protection of our legal system and subjects them to abuses by unscrupulous employers.

The Mexican Government is committed to dealing promptly with the social problems underlying migration. It has embarked on rural development programs and other job-creating projects. The two nations have been meeting to discuss the migration problem and to cooperate in reducing the flow of migrants.

3. Energy: Mexico's new oil discoveries could give it an importance comparable to Saudi Arabia. The Mexican Government recently announced proven oil reserves of 20 billion barrels, probable reserves of 37 billion, and potential reserves of 220 billion barrels. Exploitation of these reserves will provide a welcome and significant addition to world resources. Even though Mexico sells its petroleum at world prices, proximity to the US and the resultant lower cost of transporting oil provide an economic

incentive for us to continue to be Mexico's most important market.

Mexico also has considerable natural gas, much of it associated with the production of oil. Tentative agreements between six US gas transmission companies and PEMEX (Mexican state-owned petroleum enterprise) for the purchase of natural gas were allowed to expire because the price was considerably higher than that of gas imported from Canada or that allowed US domestic producers. While Mexico has stated that it now intends to consume domestically all the gas that it produces, we have indicated that we are ready to resume discussions with Mexico concerning the export of its excess gas to the US.

4. Trade: Mexico is our leading trading partner in Latin America and our fifth largest in the world. In 1977 it accounted for \$4.8 billion (4%) of US exports and about \$4.7 billion (3%) of US imports. In recent years, the US supplied over 62% of Mexico's imports and took about 60% of its exports. Although we have shown a consistent bilateral trade surplus with Mexico, the surplus has dropped dramatically over the last two years. In 1975 our bilateral trade surplus amounted to \$2.1 billion; by the end of 1977 it had dropped to less than \$200 million, largely as a result of increased petroleum imports from Mexico, a rise in world coffee prices, and a decline in Mexican demand for imports following devaluation of the peso. Although its trade deficit will probably rise in 1978 because of increased capital goods imports, Mexico is expected to have a growing bilateral surplus in the future due to expanded petroleum exports.
5. Narcotics: Mexico is the main conduit of illicit drugs entering the US. For example, some 60% of the heroin seized by US narcotics agents is the so-called "Mexican brown." About half the marijuana entering the US is Mexican, and much of the cocaine smuggled to the US from South America passes through Mexico. The US and Mexico are cooperating to shut off the flow of drugs. With the aid of helicopters and light aircraft, Mexican personnel are attempting to locate and destroy poppy fields in the remote Mexican mountains. A major effort by both nations is underway to seize contraband and apprehend drug traffickers on both sides of the border. The drug traffic apparently is being reduced, but continued support and dedication are necessary to eliminate it.

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U.S. Study Eyes Better Ties With Oil-Rich Mexico

By J. P. Smith

Washington Post Staff Writer

A National Security Council draft study describes Mexico as "the most promising new source" of oil in the 1980s and suggests that the president consider a serious upgrading in that country's priority among U.S. foreign policy interests.

The memorandum, designated as Presidential Review Memorandum (PRM) 41, says the United States could view Mexico as a world-scale partner and accord it significant concessions on winter export of farm products as well as quotas for legal immigration of workers to the United States. A copy of the draft was obtained yesterday by The Washington Post.

Yet another option outlined in the draft would be for Washington to maintain its traditional view of Mexico as an "emerging power" in the Third World.

Last week President Carter said PRM-41 could serve as the basis for his impending negotiations in February in Mexico City with President Jose Lopez Portillo.

"For the United States, Mexico represents a major new energy source, presently outside OPEC [Organization of Petroleum Exporting Countries]. Mexico could fill 30 percent of U.S. import needs by the mid-1980s, thus enhancing security of supply, and more than compensating for the decline of Venezuelan and Canadian supplies," the draft study asserts.

More important, however, the outcome of PRM-41 (as the classified study is known within the foreign policy bureaucracy) could shape a new generation of U.S.-Mexican relations.

A draft of the Mexico PRM sets forth these possible results that could come from a redirection of Washington's policy toward Mexico:

- It could provide an alternative to increased dependence on Arab oil, and access to some of what the CIA estimates could be as much as 10 million barrels of Mexican oil production a day by 1990.

- It could result in a sanctioned program for Mexican aliens now immigrating illegally to the United States at the rate of hundreds of thousands a year; a proposal that many U.S. labor leaders view as nothing short of chilling.

- It could result in lowering tariff and other trade barriers to Mexican exports, such as vegetables and textiles, that are vigorously opposed by politically powerful U.S. business interests.

- And it could result in the creation of a special negotiator for Mexican affairs reporting directly to the president or Secretary of State Cyrus R.

See MEXICO, A26, Col. 1

Memo Suggests U.S. Weigh Bette

MEXICO, From A1

Vance, that at the least would touch off regional political jealousies.

At the same time the United States could do nothing about any of these and, as a draft of the PRM says, "follow general U.S. foreign policy directions without according Mexico special or preferential status."

Carter has yet to make a choice, though senior administration officials say he has taken a keen personal interest in PRM-41.

Last week at a breakfast meeting with reporters in the White House's State Dining Room, Carter said, "I consider our relationships with Mexico to be as important as any other that we have, and my relationship with President Lopez Portillo has been very good."

Washington observers are long accustomed to Carter's effusive good will and praise about any country or head of state. What is different about Mexico, however, is that senior administration officials say in private that by all indications Carter attaches a high priority to Mexico's emerging oil prowess and to turning around the

suspicious and ill will that have marked relations between the two countries over the last 40 years. (Carter, one also is reminded, has been taking private Spanish lessons since moving into the White House.)

Elsewhere in the administration the Mexico PRM has been the focus of Cabinet-level haggling, and the bureaucratic territorial battles that mark any potential major foreign-policy switch.

Energy Secretary James R. Schlesinger Jr. was reproved in a sharply worded letter last Nov. 8, from National Security Council head Zbigniew Brzezinski last month for trying to end-run the council's PRM process by going directly to the president or negotiating directly with Mexico's national oil company.

And within the State Department, there has been cordial competition between Latin American policymakers who favor an open-handed approach towards Mexico, and State's energy experts who favored a hard-nosed posture until recently on energy negotiations with Mexico.

The Labor and Justice Departments, which both have an institu-

tional interest in stemming the flow of Mexican illegal aliens into the U.S. labor market, were briefly at odds with a State Department-favored proposal for an official U.S. program to allow Mexicans to immigrate to the United States.

While the details have yet to be worked out, and the final PRM-41 document has not gone to the president, the outlines of the administration's options were agreed upon at a Cabinet-level meeting last week held in the Situation Room in the basement of the White House's West Wing.

The PRM begins with a statement that Mexico is emerging as "an economic power of strategic value to the United States," adding that Mexico clearly could produce as much oil as Saudi Arabia, the world's leading exporter, does today.

It goes on to say that there are four major issues that need to be addressed: energy, trade, migration, and relations affecting the communities strung along both sides of the 1,950-mile U.S.-Mexico border.

Among the obstacles to improving relations between the two countries, the PRM notes, is that "important elements in both societies regard the

Ties With Oil-Rich Mexico

other with suspicion and even fear." These include Mexican fears that the United States will exploit its resources, especially oil and gas, and U.S. fears that illegal Mexican immigration will swell domestic labor markets as the economy appears headed toward a slowdown.

The PRM says that "influence, leverage, and bargaining potential—once overwhelmingly in favor of the United States—are shifting somewhat in Mexico's direction."

As for the goal of U.S.-Mexican relations, the draft PRM says the United States should press for "a stable, humane, and cooperative Mexico."

It is Mexico's growing oil power, however, that is at the heart of the policy evaluation. The first priority of Carter's February visit to Mexico will be to unsmugly embarrass loose ends from a natural gas sale, approved by Mexican President Lopez Portillo, that was killed last year by Energy Secretary Schlesinger.

If the United States adopts a posture essentially treating Mexico as "an emerging power," the draft PRM says that U.S. interest in Mexican oil and gas would be seen "in global

rather than U.S. security terms," a position which Schlesinger has continued to argue privately.

If the United States adopts a posture treating Mexico as "a partner" sharing advantages equally, the PRM suggests that a North American community, including Canada, could eventually evolve. This also would imply increased Mexican energy production, without any loss of Mexico's national sovereignty.

The rationale for a carefully stitched Mexico policy, the draft PRM says, is that "while there is little danger that—unless we attempt to seal the border—Mexico will become overtly hostile, the cumulative impact of unmanaged tension could end the conditions that have enabled the United States to discount Mexico's nearness" in favor of some other part of the world community.

The PRM argues in part for completing the natural gas negotiations aborted last year, saying that "this now appears reasonable on opportunity cost grounds, and would reinforce higher Mexican oil production and exports."

Schlesinger has continued to express private reservations about sign-

ing the gas deal, which would increase domestic gas supplies by about 4 percent. If the United States buys Mexican gas, Schlesinger argues, gas from the proposed Alaskan gas pipeline through Canada would become less competitive and could threaten completion of the pipeline.

One set of estimates, offered outside of the PRM, projects that the cost of Mexican gas would be about \$4.20 per thousand cubic feet by 1985, while Alaskan gas would cost from \$1.50 to \$2 more. Last year, however, Schlesinger moved to kill the gas deal because the Mexicans' price—which would have been indexed to oil product prices—was higher than what the administration would give the domestic industry.

Carter has said that he wants to try to resolve the gas impasse, although the draft PRM suggests that one option would be to forgo negotiations with Mexico on gas.

As for the long term, the draft PRM says that "trade-offs such as barter agreements or explicit concessions in other areas would be very difficult to negotiate and implement." So far, however, this has been the path Mexico has followed with other nations.

C

MEXICO: ECONOMIC SITUATION - OVERVIEW

1. Three main problem areas emerge from the analysis of various aspects of the Mexican economy. These are: i) long-term vs short-term issues and policies, ii) attack on poverty vs the pressure groups, and iii) trade policy vs oil policy. 1/

i. Long-term vs short-term problems and policies

2. The present Administration has inherited from the preceding Presidency a heavy burden of economic disequilibria. During the last year of the past Presidency (1976) inflation was 21 percent, with the current deficit of the balance-of-payments reaching 4.3 percent of GDY and the public sector deficit equalling 7.4 percent of GDY. These magnitudes were unusual for the Mexican economy. Since then, strong actions of the Central Bank and the Ministry of Finance, and a broad national consensus --which the new President López Portillo succeeded to obtain-- helped to attenuate these disequilibria. Some of their causes still persist, however, and, while the two years' stabilization period is formally over, the Government decided that the next two years (1979 and 1980) will be a consolidation period during which the Government will continue stabilization policies while laying the foundations for sustained and accelerated growth.

3. Control of inflation continues to be the overriding short-term objective and all the instruments of economic policy are geared to that effect. The exchange rate, and the prices of goods and services produced by public sector enterprises are kept low, below an economically justifiable level, and a special effort is made to keep public sector expenditures growing at a slower pace than otherwise possible. This policy mix would lead to a lower GDP growth than the potential offers.

4. There are at least four principal reasons why, in the present Mexican situation, rapid design and implementation of long-term policies is necessary. These are: (a) imminent increase in petroleum and gas output and in related exports, the latter increasing from \$1.8 billion in 1978 probably to \$9.6 billion in 1982; (b) broad recognition that poverty in Mexico is acute and widespread; (c) serious lags in development --and in productivity-- of the two principal sectors, agriculture and manufacturing; (d) inadequacy and continuing deterioration of the spatial environment.

5. The necessity to use the oil income efficiently is, by itself, a sufficient reason for designing a strategy of social and economic development partly financed from this new resource. The general Mexican framework is substantially different from other oil-exporting countries and this promises

1/ For a detailed discussion of these issues, please see attachments Tabs 6, 7 and 8.

that a better use could be made of oil income. Mexico possesses a better infrastructure than other oil-exporting countries. It will need, however, to be expanded in response to future requirements. Mexico has proportionately more of skilled labor and management as well as a strong and generally efficient public administration. Import substitution is highly advanced, with imports equal to only 11 percent of the GNP. Its non-traditional exports are of good quality, are largely diversified and have an excellent growth potential.

what products

6. Ideas of creating institutional framework for organized and efficient use of oil income are now being discussed. Such framework could be an Investment Fund (similar to that of Venezuela) or, simply, an earmarking of funds through setting up of a separate oil account. A long-term strategy is slowly shaping up by bits and pieces. A long-term perspective of what Mexico should become in the eighties and nineties is, however, still lacking.

what are they considering

7. The explanation why this is so consists of three complementary answers. The first is that the short-term issues still absorb the interest and time of Mexican officials, who believe that the long-term strategy could be implemented only when the short-term issues are solved.

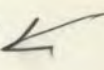
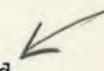
*what should Mexico become in 80's + 90's
+ 2 years to get there*

8. Secondly, Mexico never had an overall development plan. Neither there exists an agency which could prepare such plan or perform a function of an economic super-ministry. The most important economic ministry has always been --and continues to be-- the Ministry of Finance, which by definition deals mainly with short-term problems. The newly created Ministry of Programming and Budgeting was created with a planning function in mind but it is still attempting to assert itself within the administration.

9. Thirdly, Mexican officials have always used for the country's development a simple conceptual model, with many parameters and only few variables. The massive injection of resources that the rapid development of the oil sector should bring, would imply considerable structural shifts, which the Mexican officials might have some difficulty to visualize. For this reason, the dialogue with the Bank was appreciated by the Mexicans as we were able --or at least tried-- to depict some variances from the past line of development and have tested out the alternatives.

10. The elements of the long-term strategy relevant to Mexico should include policies designed to (a) solve the poverty problem, (b) create an efficient agriculture and manufacturing industry, and (c) create an adequate spatial environment.

11. In the poverty related group of policies, the population policies are now being tackled with increased efficiency. Some other policies are, however, less well advanced. Among them are: adequate management of rainfed agriculture, which provides livelihood to a large part of the rural poor; support to small-scale enterprises in rural areas and in smaller cities; preparation of a vast program of vocational training. Another area which is only partly mapped is a better supply of basic human needs, in a form of



*What is the
present
practice
Director
Jan 1981*

improved housing and better access to water, electricity and health services. A good start here was the participation of top Mexicans in the seminar organized at their request by the Bank in March 1978, during which we shared with them our project experience in these fields. They reiterated their interest in continuing discussions with the Bank staff on both the general strategy issues and on project design.

12. In order to create modern agriculture and industry, still insufficient thought is given to the long-time horizon. The Mexicans are aware of the fact --and we shared with them our preoccupations and experiences-- that a rapid economic boom, especially when sparked up by petroleum production and exports, can lead to strong attraction of the rural population to the urban centers in search of jobs which do not necessarily materialize. This has been the experience of other oil exporting countries. While some rural exodus cannot be prevented, a wider dissemination of methods to improve productivity of small farmers, strengthening of credit and agglomeration of dispersed small villages into larger centers would prevent this exodus becoming a massive one.

13. As far as industry is concerned, Mexican officials are aware that protection lasted for too long and that therefore manufacturing industry is not as competitive in the world market as the stage of development of the country and its availability of capable engineers and skilled labor would warrant. In particular it has been recognized that the capital goods industries have been lagging in Mexico compared to what would have been justified by the country's level of development. Some attempts to remedy this situation are being made now. The hitherto restricted imports of manufactures are gradually and slowly liberalized. An industrial plan is now in the process of elaboration. However the broad industrial strategy for the future is still not clear.

*What is their
plan & strategy
for making
indus. groups
attracting
employment
opport.*

14. ii. Poverty solutions vs pressure groups

Mexican administration shows concern for poverty. However, its members are constantly aware of the existence of pressure groups in the country. These groups would, no doubt, be tempted to preempt indirectly, through policies favorable to them, a part of the new oil resources. They may also claim such resources directly, in form of projects of which they could become beneficiaries. Some of the most important pressure groups are those formed by big business interests and by the organized labor.

15. In the latter years of the preceding Presidency maladroit policies have benefitted --albeit temporarily-- some of these groups, and this brought a setback to solutions to poverty. Thus, for instance, when businessmen (and public enterprises) imported capital goods at an overvalued peso exchange rate, this largely favored introduction of capital-intensive production processes and, as a result, reduced the number of new job openings. A strong push of the organized labor for wage increases, exceeding productivity increases, further reduced the comparative advantage of labor intensive exports, especially those of manufactures. The new Government changed these two policies, but the conditions for their return have not been completely uprooted.

16. ⁽³⁾ Subsidized prices for public goods and services --such as electricity and diesel oil-- which, in their majority are consumed by the middle class, provide another possibility to reduce benefits, nominally destined for the poor. Finally, the location design and target groups of projects represent another area where the generally good intentions of the Mexican administration to aid poor population could be thwarted.

*Thwarted
the poor
intention*

17. Thus, some policies or programs destined to help the poor could actually act against their interests. A full review of such policies, which has never been carried out in Mexico, should lead to a package of policies, measures and specific projects or programs to relieve poverty. Little progress has been made in this latter field, and the project pipeline of the Mexican public sector, especially for the poverty targeted projects, has not yet been built to respond to the substantial availability of resources in the future. It is in this area that the Bank can be useful and has offered cooperation (please see Annex IV, Tab E).

*Stress
this*

iii. Trade policy vs oil policy

18. The oil policy as such should become a part of the general Trade (or "External Sector") policy. Experience shows that wherever oil policy was considered as a policy per se, it ended by dominating (and distorting) other policies and sectors.

19. For a development policy centered on securing rapid and sustained growth, the key questions are:

- How to maximize other, non-traditional exports, and
- What should be the optimal foreign exchange mix between foreign exchange received from exports and the foreign exchange brought to the country through external borrowing.

*depend on
exchange rate*

20. We have been trying to provide some plausible answers to both these questions in our dialogue with the Mexican decision-makers; we believe that the answer to the first question hinges mainly on the behavior of the exchange rate. In the presence of a substantial and increasing foreign currency inflow, the exchange rate, even when it is floating freely tends to remain unchanged in nominal terms; this has been the experience of other oil exporting countries. As a result, the domestic currency appreciates in real terms, and incentives to export weaken considerably. As already noted, the Mexican authorities seem to have adopted a passive attitude vis-à-vis the exchange rate. Appreciation of the Peso would indiscriminately affect the domestic industry by making imports cheaper, would penalize non-petroleum exports and reduce growth and employment generation.

21. Mexico will have to open quickly its economy to international trade; the real challenge is to do so efficiently and without hurting domestic development. Among other reasons, opening of the economy would provide a powerful shock-absorber. The petroleum boom would inevitably lead to some

*what steps
are needed*

partial bottlenecks and to excess demand, which domestic production would not be able to satisfy. This excess demand may manifest itself in the demand for consumer goods, especially by the middle class, which in Mexico includes the well-paid organized labor, as well as in the demand for capital equipment by the private and public sectors. If excess demand for the former is not satisfied quickly from imports, inflationary tensions would inevitably develop. The unsatisfied demand for the latter will result in idle capacities and a slower growth.

22. As for the question of the proper mix between foreign income from oil export and foreign savings (foreign borrowing) the question is what to do beyond the horizon of 1982 since the amount of foreign exchange from oil exports which is forecasted for the next three or four years is already practically determined by the investment and production plans of PEMEX. In answering it, two factors will have to be taken into consideration.

23. Firstly, the experience of other countries suggests that excessive reliance on oil exports inevitably creates distortions in the economy. By 1982 this dependence would be still within reasonable proportions in Mexico, with the value of oil production in GDP remaining around 13-15 percent, compared to 30 percent for Venezuela, 40 percent in Algeria and 50 percent in Iran (estimate for the mid-seventies). In other oil countries the steeply increased supply of foreign exchange, was absorbed through imports often induced, or super-imposed on the structure of the consumption and production before the real needs for them arose. This often led to wasteful and unnecessary imports. In Mexico, because of the existence of substantial domestic production base, such a solution could become even more painful, and would affect domestic production negatively. This is why we think that exports (and production) of oil should be treated as a "slack variable" which could be adjusted in response to the real (i.e. economically justifiable) needs of the economy.

24. Secondly, a cost-benefit analysis of oil exports compared to foreign borrowing should be considered. In the recent past, oil prices have been lagging behind the world inflation. The picture for the near future is uncertain but one can assume that some parallelism between oil prices and the world inflation may have been now established. The current Bank forecasts are, however, that the oil prices might grow quicker than the world inflation starting from the mid-1980s. The interest rates on foreign loans to Mexico are at present negligible in real terms, at about one-to-two percentage points above the expected inflation rate. It is therefore worthwhile for Mexico to continue to borrow, at least until such moment when the incremental benefit the country could reap on oil prices (over the world inflation) exceeds the incremental cost of interest (over the world inflation rate) paid on foreign loans.

MEXICO: LONG-TERM ISSUES AND PROSPECTS

1. Economic prospects for Mexico are very good in most respects, and many of the Government's economic policies are moving in appropriate directions. Nevertheless, additional strengthening of some programs as well as some further policy changes will be needed, if Mexico's potential for rapid and more widely shared growth is to be fully realized.

2. In the past several decades the Mexican economy as a whole has grown rapidly, but this growth has not been widely shared. A certain degree of inequality was inevitable, as development never occurs everywhere or involves everyone at the same pace. Indeed, international comparisons show relatively high degrees of inequality in many (although not all) countries at Mexico's stage of development. But in Mexico the problem has been exacerbated by rapid population growth, inadequate land reform and neglect of non-irrigated agriculture (where over 20 percent of the labor force is engaged), the policies that biased production against labor-intensive sectors and processes.

3. Mexico can achieve both growth in GDP as a whole and increased shares of income earned by the poor, if policies are further improved. The rapid growth of population and of the labor force expected over the next ten years or so will limit the gains of the poor, but better policies together with the relaxation of the foreign exchange constraint on growth brought about by the new petroleum riches can set the stage for important improvements in this respect.

4. In his last address to Congress, on September 1, 1978, President Lopez Portillo announced that Mexico's present oil and gas reserves amounted to 20 billion barrels by July 31, 1979 and that probable and potential reserves amounted to 37 billion and 200 billion barrels, respectively.^{1/} Exploitation of these reserves would allow Mexico to increase crude oil and natural gas liquids production from 894 thousand bbl/day in 1976 to about 2,800 bbl/day in 1982 and to export the equivalent of about 1,600 thousand bbl/day of crude oil in 1982 (approximately US\$9.0 billion on the basis of conservative price assumption), not counting possible gas exports. (For further details, please see Attachment G-8).

5. The challenge ahead is how to use these vast riches to help resolve Mexico's long-term development problems. Particularly important are the following:

- (a) Population and Poverty. Income distribution in Mexico is highly unequal and the real incomes of the large number of poor Mexicans have not increased--they may even have

^{1/} On December 31, 1978, PEMEX announced that proven and probable reserves have been raised to 40.1 and 44.6 billion barrels, respectively.

decreased--over the last fifteen years. Mexico's labor force is now growing more rapidly than in the past (about 3.1 percent per year compared to 2.7 percent per year during the 1960's). The challenge of providing productive jobs for both new entrants (about 550,000 per year during 1975-1980) and existing under-productive workers (6.5 million workers--about 40 percent of the labor force) is awesome.

- (b) Stagnation in Agriculture. Crop and livestock production in Mexico--which had grown at 6 percent per year during 1945-1955 and 4.2 percent per year during 1955-1965--grew at only 2.1 percent per year during 1965-1975. This near-stagnation signals the end of the strategy in which agricultural growth came from modern farming on newly irrigated land (both privately and ejido owned), while rainfed agriculture was relatively neglected. Now the need for both increased production and income for Mexico's 2.3 million poor rural families require the adoption of new strategies.
- (c) Regional Imbalances. The heavy concentration of people, production, and public services in the Mexico City area--which has currently a population of about 12 million and is growing at over 5 percent each year--and the scarcity of productive employment and services for rural Mexicans, are challenges to urban management, economic development, and social justice. They imply diversion of some of Mexico City's future growth to other regions, as well as the gradual concentration of scattered rural populations into small towns so that basic public services could be provided more economically and productive activities would have a better chance of developing.

Population and Poverty

6. The most difficult of all the problems facing Mexican policy makers is to provide productive jobs for the new entrants to the labor force--which is growing at over 3 percent per year even after emigration is subtracted--as well as to raise the productivity of some 6.4 million workers now earning less than the minimum wage. Even to keep up with the unprecedented rate at which new entrants join the labor force will require concerted action with every available instrument. The most important parts of a strategy to increase employment are (a) rapid growth of output, including a wide range of exports of goods and services promoted by appropriate exchange rate and other incentives; (b) reduction of subsidies that make capital equipment cheaper, and also reduction or shifts of wage-related taxes and other charges that make labor more expensive; (c) rural development and small-scale industry programs that provide increased credit, technical know-how, and other necessary inputs

to increase the productivity and incomes of low-productivity workers and entrepreneurs; and (d) for the longer-run, a population program to reduce Mexico's demographic growth. 1/ Programs to implement the latter two elements of the strategy are in place and working. The two former elements, however, still require decisions to change policy.

Growth of Output

7. Our analysis indicates that output could grow at about 8-9 percent per year in Mexico during the remainder of the current sexenio and thereafter, opening thereby a unique opportunity to effectively attack the unemployment and poverty problems. This high rate of economic expansion is predicated on the assumptions that Mexico does not face a financial constraint on growth and that it would be able to open efficiently its economy to international trade so as to allow excess domestic demand to be satisfied through additional imports.

8. The assumption that Mexico does not face a financial constraint on growth and that it can pursue a high growth strategy over the medium-term, financing its foreign exchange needs through a mixture of additional borrowing and increased production and exports of petroleum and related products--in spite of its already high indebtedness and debt burden--is based on our estimates that Mexico has enough hydrocarbon resources to sustain such a strategy if it exploits them efficiently.

9. In fact, we have estimated that Mexico would need to produce about 55 billion barrels of crude oil equivalent between now and year 2000 in order to satisfy domestic demand for oil and related products and finance entirely the foreign exchange needs associated to a hypothetical growth rate of 7 percent per year during this period. Since proven and probable reserves amounted to 57 billion barrels as of July 31, 1978, and there are enough indications that they will continue expanding at a high rate, this seems to be a feasible scenario. 2/ (Table 1)

10. We think that Mexico is, therefore, in a unique position to open its economy at a rather quick pace without seriously affecting domestic production. First, the absence of a binding foreign exchange constraint on growth and the existence of a roughly adequate exchange rate makes it unnecessary to artificially control the total volume of imports. Second, the somewhat moderate level of implicit protection now being utilized allows the authorities to quickly replace direct import controls by import duties without necessarily affecting the level and structure of protection, at least temporarily. The Mexican authorities are already moving in this direction but at a slower than necessary pace.

1/ For details on population and labor force growth, please see the attached economic report on Mexico: IBRD, "Special Study on the Mexican Economy: Major Policy Issues and Prospects, 1977-82", paras. 56-65, pages 26-31.

2/ On December 31, 1978, PEMEX announced that proven and probable reserves have been raised to 40.1 and 44.6 billion barrels, respectively.

11. It should be stressed that the challenge is to open the economy efficiently, without wasting resources and keeping in mind the need to pursue a balanced and employment-oriented growth strategy. In fact, the most important criterion the authorities should keep in mind in designing their economic policies is to use the petroleum resources to foster the development of the rest of the economy, including both efficient import substituting and export sectors. This is not only because of the need to avoid a painful adjustment process when the petroleum is finally exhausted or displaced by alternative energy sources in the future, but also because of Mexico's pressing need to expand productive employment at the highest possible pace. The maintenance of an appropriate exchange rate becomes crucial in this respect; in fact, exchange rate policy should be designed to increase GDP growth by making both exports and import substitutes more profitable. An appropriate exchange rate is also crucial for avoiding major structural problems in domestic markets while opening the economy to international trade.

12. Since Mexico does not face a financial constraint on growth and assuming that the economy can be opened efficiently to international trade, future GDP growth will basically depend upon the rate of growth and productivity of fixed investment. Our estimate that GDP could grow at about 8-9 percent per year in Mexico during the remainder of the sexenio is based upon the assumptions that fixed investment could grow at almost 15 percent in real terms per year during 1979-82 and that the productivity of investment--as measured by the incremental capital-output ratio (ICOR)--will be similar to its "normal" past level (Table 2).

13. We have estimated that public sector investments could grow at 14.5 percent per year in real terms over the sexenio, but about 20 percent between 1979-82, reflecting a strong recovery of public investments after the marked slow-down of 1976-66 brought about by the need of the stabilization effort. These investment projections reflect our perceptions of what the investment program should be in the light of the Government's broad economic and social objectives and in the absence of major financial and physical or institutional constraints. (Table 3) 1/

14. In order to attain the overall investment growth projected above, private sector investment would have to grow at an annual real rate of about 11 percent during 1979-1982, which will increase its ratio to GDY from 11.9 percent in 1979 to 12.6 percent in 1982. Although this rate of expansion is

1/ An official investment program for the remainder of the sexenio is still not available. The Secretary of Programming and Budgeting completed a preliminary version of the six-year investment program by the end of 1977 but the changes in the Economic Cabinet (Ministers of Programming and Budgeting and Finance and Public Credit) that took place at that time and the increasing awareness about the additional resources the public sector will obtain from the exploitation of Mexico's vast hydrocarbon resources have led to an in-depth revision of these proposals, which is still underway.

higher than the extrapolation of past experience would have indicated, it looks conservative in the light of projected public sector investments and the experience of other "booming" countries, particularly if we keep in mind the assumption of no financial constraint.

15. Failure to open the economy efficiently in the face of rapidly expanding domestic demand could lead to increasing inflation, appreciation of the Peso in real terms and/or slower growth of output and employment generation. In fact, if the economy cannot be opened efficiently at the speed and extent here predicated the second best alternative would be to maintain maximum investment rates by increasing public sector savings in order to substitute for the lower level of external savings. Slowing investment, GDP growth and employment generation would be the third best approach. The alternative of forcing the economy to absorb additional foreign savings by letting the Peso appreciate in real terms, would imply substantially higher costs in terms of growth, wasted resources, further distortions in relative prices and increased dualism.

16. The rapid increase of domestic demand implicit in the high growth scenario summarized above would lead to an even faster increase of imports, the level of imports depending upon the domestic savings effort, net of petroleum exports related savings. Therefore, it is likely that roughly the same levels of investment and growth could be achieved with somewhat lower levels of imports, and hence of external debt, if non petroleum exports related public sector savings were increased above the presently projected level. As we will discuss below, public savings performance can and should be substantially improved.

17. Mexico's overall savings performance compares reasonably well with that of many countries at a similar stage of development. For the last 10 years Mexico's national savings have fluctuated around 16 percent of GDY (Table 4). However, serious problems have arisen because of the inadequacy of public sector savings (Table 5). The latter is the consequence of low taxes and generally low prices for the goods and services provided by public sector enterprises. The consequence of the inadequate level of public sector savings was for many years an undesirably low level of public sector development expenditures; in more recent years, however, expenditures have risen and the effect has been inflationary pressures and increased foreign borrowing.

18. The administrative reform of January 1977; the new laws and organizations aimed at better control of public sector investment, current spending and foreign borrowing, and other actions; and the proposed decentralization of certain powers to state governments should help Mexico to make better use of public funds. Other problems, however, remain. The two crucial points where improvements are needed are tax reform (both to increase revenues and to make the system more equitable), and better fiscal discipline for public sector

enterprises (especially pricing policies designed to cover costs and, progressively, to earn adequate returns on investments).

19. Gross Federal tax revenues have been growing rapidly in Mexico, increasing from about 8.7 percent of GDY in 1960 to an estimated 12.2 percent in 1976. This ratio, is however, still very low in comparison to other Latin American countries or to other countries of the developing world as a whole. Other countries that are roughly similar to Mexico in per capita income, urbanization and concentration of industry have tax ratios of 18-20 percent of GDP, and this is a feasible target for Mexico. ^{1/}

20. Mexico's low tax ratio disguises the fact that the effective tax rates on some sectors and sources of income are very high indeed. Personal income tax rates rise in effect to 57 percent, while the sales tax embodies rates as high as 30 percent on sumptuary and luxury items. The reasons for the low yields of Mexico's tax system lie in the narrow base on which the rates are levied, anachronistic tax preferences to sectors that no longer require such special treatment, and extraordinarily high rates of avoidance and evasion.

21. The second weakness in Mexico's public finances are the subsidies granted by public sector enterprises and agencies. Most of these involve below-cost sales of products. Some of the largest of these subsidies are deliberate, designed to favor certain sectors or groups. Estimated subsidies for 1977 for a few of the largest items amount to over Mex\$93.0 billion. This is equivalent to almost 6 percent of GDY, and slightly higher than the deficit of the budgetary controlled public sector. By far the largest single item is the domestic sales of petroleum and products at below-world-market levels. Losses in agriculture-related activities are also large. These subsidies not only increase the public sector deficit, but also may be harmful through the distortions they induce throughout the economy. Cheap fuel induces Mexico to consume much more than do other countries at similar stages of development; the fact that petroleum-based fuels are cheap has resulted in an almost total neglect of other sources of energy. Another important example is in agriculture, where cheap water is used to grow low-value crops which could be grown almost as well in rainfed areas.

22. It is by no means clear if these subsidies are serving the purposes for which they were instituted. We support the Government's decision to review comprehensively the country's incentive schemes, in order to reshape them in the light of the priorities enunciated by the new Administration. A particularly urgent need is to re-design incentives so as to increase employment opportunities and raise the productivity of the poor.

^{1/} Important changes to the tax code are now being discussed in Congress and are expected to be approved. They include the introduction of the value added tax starting January 1, 1980, and a broadening of the tax base.

23. Finally, it should be stressed that the Government seems to have chosen a slightly different strategy than the one suggested here. In fact, the Government has in a sense delayed the starting of the high growth strategy until 1981 and has decided to give the policy-makers two years--the consolidation period, 1979-80--to start implementing the trade, financial, tax and other policies and necessary reforms, as well as to improve the institutional and managerial capacity of the public sector to handle efficiently the vast amount of additional resources it would have under its command. The price of this option would be a somewhat lower growth in 1979-80 than what could have been potentially achieved, but it may be worth paying if in the authorities' assessment of the situation, the country and the public sector in particular are not yet in a position to jump into the high growth option without running a serious risk of inducing financial disequilibria and changes in relative prices that may end up jeopardizing future growth prospects.

Poverty and Employment

24. Rapid GDP growth is a necessary condition for a rapid expansion of productive employment but it is not a sufficient one. To induce employment to grow rapidly and in ways that provide many Mexicans with chances to earn higher incomes, the major steps needed are:

- (a) Generalize promotion of both import substitutes and exports. Maintenance of peso-dollar parity that makes imports look mildly expensive and exports look profitable to Mexican producers, combined with modest additional incentives to promote both exports and import substitutes in manufacturing, will increase growth and make it more labor intensive.
- (b) Eliminate as many as possible of the investment incentives that make capital equipment cheaper. Where private sector activity should be stimulated, do it through incentives that stimulate use of more labor.
- (c) Shift the financing, insofar as possible, of taxes and other charges that are proportional to wage bills (e.g., the 5 percent INFONAVIT contribution, social security, the education tax on wages) to a neutral form such as income or value-added taxes.

25. Continued progress on rural development and labor intensive enterprises, and on family planning, as well as the changes in policy suggested above, would ameliorate Mexico's poverty problem to some extent, and do so at little or no cost in growth or in incomes of the better-off. Further action in terms of better and more equitable provision of public services would also improve the living conditions of the poor; here the improvements would have to be paid for by tax revenues that must ultimately come from the incomes of the non-poor. The mission supports the Mexican Government's

objective of providing more basic services (education, sanitation, health, potable water, rural electrification, etc.) and has taken account of the implied financial needs; in our projections, aggregate public sector capital expenditures for welfare and social infrastructure, are estimated to increase by almost 70 percent in real terms in 1977-1982 with respect to 1971-1976.

what are these things (investments) or improved physical infrastructure

Agriculture

26. Mexico's agricultural development strategy seems to be changing in the right directions. These changes were required by increasing awareness of two different problems. First, the near-stagnation of output growth in the last decade or so shows that major production increases can no longer be expected from a program consisting mostly of large-scale irrigation schemes for commercial farming in previously unused areas. The costs of additional water are too high in most areas, and markets for high-value crops are not expanding rapidly enough. Second, the old policy, while successful for a time in increasing production, was of limited use in increasing incomes of the mass of Mexico's rural poor. Allocating more resources to Mexico's new rural development and rainfed agricultural programs is the main way to increase output and productivity of the rural poor and of the entire agricultural sector. The steps already taken must be followed by further program expansion and improvement.

Regional Imbalances

27. Within the last three years Mexico has moved towards establishing a stronger, coherent and explicit spatial policy. The Law of Human Settlements, adopted in June 1976, provides the legal authority for planning and implementing programs to achieve spatial goals. The stated objectives of the law include improved rural-urban integration, more balanced growth as among cities and regions, promotion of growth in medium-sized cities as alternatives to the largest cities, greater citizen participation in solving urban problems, land use control, better provision of urban services, and improvement of the housing location-job location commuting situation within cities.

28. The existence of a national urban-regional plan, and the responsibility of the Secretariat of Programming and Budget (SPP) to assure that the national government's spending is consistent with that plan, gives the central government the means to implement a strong urban-regional policy. Planning and land use regulation by state or local governments (with conurbation commissions supervising planning in multi-state urban areas) are potentially powerful complements to the federal role. It is still too early to say just how these powers will be used, but the potential for coordinated action exists.

External Assistance and Balance of Payments Policies

29. If the economy is opened to international trade, as proposed above, external savings would continue playing an important role for the years to

come and would fluctuate between 2.5 and 3 percent of GDY. (Table 6).

30. The basic assumptions underlying our balance of payments projections are that: (a) the economy would be opened so as to satisfy excess domestic demand through additional imports; (b) the exchange rate will remain constant in real terms at or near its present level; and (c) incentives to non-petroleum exports would be strengthened.

*3 basic
policies*

31. The rather quick opening of the economy implicit in these projections is reflected in the increase of the trade ratio (ratio of imports plus exports of GDY) from 20.2 percent of GDY in 1978 to 26.5 of GDY in 1982. Much of this increase is accounted for by the increase in exports--the export ratio goes up from 9.8 percent of GDY to 12.8 percent during the same period--but the import ratio increases also substantially, from 10.4 percent of GDY in 1978 to 13.7 percent in 1982.

32. Although most of the increase of merchandise exports is explained by petroleum exports--which are projected to grow from \$1.8 billion in 1978 to \$8.9 billion in 1982--manufactured exports (including assembly industry and petrochemicals) are also assumed to increase rapidly at about 12 percent per year in real terms during 1979-82. The rapid growth of manufactured exports during the remainder of the sexenio, in spite of low growth expectations in the USA and other OECD countries, is predicated upon assumptions (b) and (c) above and a rapid expansion of petrochemical exports. Projected growth of non-factor service exports, particularly tourism, would also depend heavily upon the materialization of the exchange rate assumptions.

33. The additional foreign borrowing necessary to finance the projected balance of payments current account deficit would increase medium- and long-term public sector debt from US\$19.4 billion in 1977 to about US\$36 billion in 1982. The debt service ratio would however drop from 0.47 in 1977 to 0.38 in 1982, still a somewhat high but manageable level given Mexico's vast oil resources. (Table 7)

Mexico Division
Programs Dept. (LACI)
January 3, 1979

TABLE 1: MEXICO: PRODUCTION, CONSUMPTION AND EXPORTS OF HYDROCARBON PRODUCTS, 1982-2000 a/

	1982	1990		2000	
		<u>A b/</u>	<u>B b/</u>	<u>A b/</u>	<u>B b/</u>
Production (million bbl/day)	3.49	5.93	6.82	10.81	11.86
Consumption (million bbl/day)	1.84	3.33	3.33	7.00	7.00
Exports (million bbl/day)	1.65	2.60	3.49	3.81	4.86
Accumulated Production (billion bbl)	4.00	17.93	10.62	48.66	54.82
Proven and Probable Reserves (as of June 78, billion bbl) <u>c/</u>	57.0	57.0	57.0	57.0	57.0
Ratio of Accumulated Production to Proven and Probable Reserve as of June 78 (%)	7.0	35.1	36.2	85.4	96.2
Ratio of Non-Hydrocarbon Exports to Total Exports (%)	57.9	57.6	50.3	64.2	58.5
Ratio of External Debt to GDP	22.8	18.2	5.1	17.4	-2.4
Ratio of Interest Payments on External Debt to Exports	11.5	10.8	2.6	9.6	-1.2
<u>Memorandum Items</u>					
Critical Reserves (billion bbl) <u>d/</u>	27.7	43.3	49.8	78.9	86.6
GDP (US\$ million; 1982 prices)	171.5	294.6	294.6	579.6	579.6
Total Exports (US\$ million; 1982 prices)	21.9	39.5	45.3	83.9	92.1
External Debt (US\$ million; 1982 prices)	39.1	53.6	14.9	100.9	-13.6
Crude Oil Prices (1982 prices)	15.7	17.68	17.68	21.55	21.55

a/ In order to simplify this exercise we projected total production, consumption and demand of hydrocarbon resources without attempting to break them down by major components, assuming that PEMEX would opt for a production mixture that optimizes the use of these resources. PEMEX may face a major problem in this respect if combined crude oil/gas production has to grow faster than domestic demand for fuel and the excess gas cannot be exported.

b/ Alternative A assumes that Mexico would run a maximum balance of payments current account deficit of 3 percent of GDP throughout the projection period. In alternative B the current account is assumed to be balanced. For the other assumptions behind these projections see the text.

e/ Include natural gas. On December 31, 1978, PEMEX announced that proven and probable reserves have been raised to 40.1 and 44.6 billion barrels, respectively.

d/ Defined as the amount of proven and probable reserves necessary to sustain a given level of production over a minimum period of time, usually estimated so as to allow a production/reserve ratio of about 15-20 years.

TABLE 2: MEXICO - GDP and Investment Requirements, 1965-1982
(1972 Mex\$ billion)

	1977	1978	1979	1980	1981	1982	Annual Rates of Growth			
							1966-70	1971-76	1977-82	1979-82
<u>GDP</u>	<u>620.9</u>	<u>658.3</u>	<u>714.7</u>	<u>781.5</u>	<u>852.1</u>	<u>925.3</u>	<u>6.8</u>	<u>4.9</u>	<u>7.0</u>	<u>8.9</u>
(i) Agriculture	56.0	57.6	59.4	61.1	63.0	64.8	2.6	0.8	3.0	3.0
(ii) Industry and Mining	226.3	249.9	281.8	319.1	360.5	405.2	7.3	5.8	10.9	12.8
- Petroleum	(25.0)	(30.0)	(37.5)	(46.1)	(55.4)	(64.2)	(9.5)	(8.0)	20.4	20.9
(iii) Rest	338.6	350.8	373.5	401.3	428.6	455.2	6.6	5.1	4.8	6.7
<u>Fixed Investment</u> ^{a/}	<u>114.7</u>	<u>127.8</u>	<u>156.3</u>	<u>181.9</u>	<u>202.5</u>	<u>221.7</u>	<u>9.4</u>	<u>5.6</u>	<u>10.1</u>	<u>14.8</u>
(i) Public Sector	47.3	55.4	72.7	87.3	100.4	112.4	13.5	7.8	14.5	19.3
- PEMEX	(11.2)	(20.4)	(28.3)	(22.3)	(16.1)	(16.6)	(5.8)	(10.8)	(8.2)	(-5.0)
(ii) Private Sector	67.4	72.4	83.6	94.6	102.1	109.3	7.4	4.2	6.7	10.8
							Annual Averages			
							1966-70	1971-76	1978-82	79-82
<u>ICOR</u>	-	<u>3.06</u>	<u>2.27</u>	<u>2.34</u>	<u>2.58</u>	<u>2.77</u>	<u>2.71</u>	<u>5.53</u>	<u>2.60</u>	<u>2.49</u>
(i) Non-petroleum economy	-	3.22	2.20	2.20	2.60	2.90	2.61	5.87	2.62	2.48

a/ These figures are deflated by the corresponding implicit price indexes, and therefore are not necessarily equal to the investment figures shown in other text tables where the GDY deflator is used.

Table 3: MEXICO: PUBLIC SECTOR INVESTMENTS, 1977-82
 (1972 Mex\$ billion)^{a/}

	1971-76		1977-82		Rate of Change Over the Period
	\$	%	\$	%	%
Industry	99.1	39.0	223.1	46.9	125.1
PEMEX	(44.5)	(17.5)	(114.8)	(24.1)	(156.0)
Rest	(54.6)	(21.5)	(108.3)	(22.8)	(98.4)
Welfare and Social Infra- Structure	50.1	19.7	84.1	17.7	68.0
Transport and Communi- cations	56.3	22.1	81.5	17.1	44.8
Agriculture and Rural Development	40.3	15.9	75.0	15.8	86.1
Other	8.3	3.3	11.9	2.5	43.4
Total	<u>254.1</u>	<u>100.0</u>	<u>475.6</u>	<u>100.0</u>	<u>87.2</u>
Memorandum Item					
Housing (INFONAVIT)	12.3	-	20.1	-	33.1

^{a/} Deflated by the investment deflator

Table 4: MEXICO - Fixed Investments and Its Financing, 1977-1982 ^{a/}
(1972 Mex\$ billion)

	1977	1978	1979	1980	1981	1982	Average (% of GDY)		
							1965-70	1971-76	1977-82
USES	126.1	139.9	171.7	200.5	223.8	245.9	19.0	21.0	23.7
Fixed Investments	126.1	139.9	171.7	200.5	223.8	245.9	19.0	21.0	23.7
(a) Public Sector ^{b/}	52.1	60.6	79.9	96.2	111.0	124.7	6.5	8.2	11.2
(b) Private Sector	74.0	79.3	91.8	104.3	112.8	121.2	12.5	12.8	12.5
SOURCES	126.1	139.9	171.7	200.5	223.8	245.9	19.0	21.0	23.7
National Savings ^{b/}	88.5	108.3	139.0	169.2	194.3	213.2	16.3	15.7	19.5
(a) Public Sector	20.4	24.6	36.1	48.1	61.5	69.8	3.3	2.6	5.6
(b) Private Sector	68.1	83.8	102.9	121.1	132.8	143.4	13.0	13.1	13.9
- Real Cash Balances	(-3.6)	(5.6)	(7.5)	(7.4)	(8.7)	(8.8)	(0.9)	(1.6)	(0.7)
- Other	(71.7)	(78.2)	(95.4)	(113.7)	(124.1)	(134.6)	(12.1)	(11.5)	(13.2)
INFLATION TAX	20.3	11.5	10.7	7.9	5.2	5.8	0.3	1.4	1.3
External Savings	17.3	20.1	22.0	23.5	24.3	27.0	2.4	3.9	2.9
MEMORANDUM ITEMS									
GDY	622.8	665.4	728.9	803.5	883.1	962.6	-	-	
Disposable Income ^{c/}	495.4	538.3	582.0	636.9	693.4	750.0			
Private Sector Marginal Savings Ratio(out of Non-monetary Savings)	-	0.15	0.39	0.34	0.18	0.18	-	-	

a/ All the figures in this table were deflated by the GDY implicit deflator so as to make them comparable.

b/ Public sector investments include the investment expenditures of the budgetary and non-budgetary controlled public sector while savings do not include the savings of the non-budgetary controlled public sector.

c/ Defined as Gross National Income minus taxes and savings of public sector enterprises plus public sector transfers to the private sector, including social security cash contributions, direct subsidies and other.

Table 5: MEXICO - PUBLIC SECTOR SAVINGS

(1972 Mex\$ billion) ^{a/}

	<u>% of GDY (current prices)</u>									
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1971-76</u>	<u>1976</u>	<u>1977-82</u>	<u>1982</u>
<u>Current Revenues</u>	<u>132.1</u>	<u>144.2</u>	<u>171.3</u>	<u>199.9</u>	<u>235.2</u>	<u>264.6</u>	<u>17.1</u>	<u>20.3</u>	<u>24.6</u>	<u>27.5</u>
(a) Taxes ^{b/}	83.2	91.0	104.3	117.7	135.3	150.9	10.8	13.0	14.6	15.7
- PEMEX	(7.3)	9.1	13.1	16.2	22.7	26.7	(0.6)	(0.6)	(2.0)	(2.8)
- Other	(75.9)	81.9	91.2	101.5	112.6	124.2	(10.2)	(12.4)	(12.6)	(12.9)
(b) Non-tax	24.8	24.8	27.2	30.1	33.0	35.8	3.2	3.8	3.8	3.7
(c) Value Added of Budgetary Controlled Public Enterprises	24.1	28.4	39.8	52.1	66.9	77.9	3.1	3.5	6.2	8.1
- PEMEX	(17.7)	(23.2)	(34.0)	(45.3)	(59.1)	(69.2)	(2.1)	(2.5)	(5.3)	(7.2)
- Other	(6.4)	(5.2)	(5.8)	(6.8)	(7.8)	(8.7)	(1.0)	(1.0)	(0.9)	(0.9)
<u>Current Expenditures</u>	<u>111.9</u>	<u>119.5</u>	<u>135.3</u>	<u>151.9</u>	<u>173.7</u>	<u>194.9</u>	<u>14.5</u>	<u>17.7</u>	<u>19.0</u>	<u>20.2</u>
(a) Wages and Purchases of Goods and Services	55.3	58.7	65.7	73.5	82.2	91.9	8.3	9.6	9.2	9.5
(b) Current Transfers	25.8	26.8	30.1	33.7	37.7	42.3	3.3	4.4	4.2	4.4
- Other	(9.9)	(9.8)	(11.0)	(12.3)	(13.7)	(15.4)	(2.3)	(2.8)	(1.5)	(1.6)
- State Participations	(15.9)	(17.0)	(19.1)	(21.4)	(24.0)	(27.0)	(1.0)	(1.6)	(2.7)	(2.8)
(c) Interest Payments	17.8	17.9	18.5	19.4	20.6	22.0	1.9	2.7	2.5	2.3
(d) Other	13.0	16.1	21.0	25.3	33.2	38.7	1.0	1.0	3.1	4.0
<u>Savings</u>	<u>20.2</u>	<u>24.7</u>	<u>36.0</u>	<u>48.0</u>	<u>61.5</u>	<u>69.7</u>	<u>2.6</u>	<u>2.6</u>	<u>5.6</u>	<u>7.3</u>

^{a/} Deflated by the GDY implicit deflator

^{b/} Net of subsidies to the private sector

TABLE 6: MEXICO: Summary Balance of Payments Projections, 1978-82

	High Growth Scenario (US\$ million)					
	1977	1978	1979	1980	1981	1982
<u>Exports</u>	<u>7,454.2</u>	<u>9,068.2</u>	<u>11,711.6</u>	<u>14,689.7</u>	<u>18,412.0</u>	<u>21,911.8</u>
Merchandise	4,278.2	5,295.5	7,388.6	9,800.8	12,849.6	15,611.2
Non-Factor Services	3,175.9	3,772.7	4,323.0	4,888.9	5,562.5	6,300.6
<u>Imports</u>	<u>7,582.8</u>	<u>9,615.5</u>	<u>12,599.5</u>	<u>15,816.6</u>	<u>19,636.7</u>	<u>23,471.2</u>
Merchandise	5,518.5	7,259.7	9,778.9	12,369.4	15,347.3	18,251.1
Non-Factor Services	2,064.3	2,355.7	2,820.6	3,447.2	4,289.3	5,220.0
<u>Factor Service Income (Net)</u>	<u>-2,064.3</u>	<u>-2,452.2</u>	<u>-2,620.6</u>	<u>-2,832.9</u>	<u>-3,130.1</u>	<u>-3,559.2</u>
Interest Payments	-1,794.8	-1,860.1	-1,934.4	-2,040.8	-2,219.0	-2,514.1
Direct Investment Income	- 480.8	- 830.5	-940.7	-1,072.1	-1,219.1	-1,383.9
Worker Remittances	211.3	235.4	254.6	280.0	308.0	338.8
<u>Balance of Goods and Services</u>	<u>-2,192.9</u>	<u>-2,999.5</u>	<u>-3,508.5</u>	<u>-3,959.6</u>	<u>-4,959.6</u>	<u>-5,118.1</u>
Transfers (Net)	199.8	218.5	238.9	261.3	285.9	312.9
<u>Current Account Deficit</u>	<u>-1,993.1</u>	<u>-2,781.0</u>	<u>-3,269.7</u>	<u>-3,698.4</u>	<u>-4,068.8</u>	<u>-4,805.7</u>
New Direct Investment	437.0	679.7	781.7	875.5	980.5	1,098.2
Net Public Sector Borrowings (M. & LT)	3,886.5	2,340.7	2,886.2	3,160.1	3,526.1	4,447.3
Disbursements	6,312.1	6,147.3	7,601.4	8,792.9	9,802.4	10,576.5
Amortization	-2,425.6	-3,806.6	-4,715.1	-5,632.8	-6,276.3	-6,129.1
Other Capital	-1,860.0	100.0	100.0	200.0	200.0	-100.0
Change in Reserves (Gross)	-470.7	-339.5	-498.3	5537.3	-637.9	-640.4

Source: Mission's estimates

Table 7: MEXICO: EXTERNAL CAPITAL REQUIREMENTS AND EXTERNAL DEBT

(US\$ millions)

	1965	1970	1975	1977	1978	1979	1980	1981	1982
Net Capital Inflow <u>a/</u>	375.8	1,068.0	4,181.2	1,998.1	2,781.0	3,269.7	3,698.4	4,068.8	4,805.7
Plus Amortization	369.7	562.7	852.8	2,425.6	3,806.6	4,715.1	5,632.8	6,276.3	6,129.1
Minus Direct Investment	+213.9	+322.8	+748.8	+437.3	+679.7	+781.7	+875.5	+980.5	+1,098.2
Minus Other Capital <u>b/</u>	+161.0	+486.6	-133.4	-2,330.7	-239.5	-398.3	-337.2	-437.8	-739.9
Equal Gross Medium and long term borrowing	370.6	821.3	4,418.6	6,312.1	6,147.3	7,601.4	8,792.9	9,802.4	10,576.5
Disbursements on:									
IBRD Loans	35.4	98.4	188.4	239.5	270.5	346.9	436.7	480.3	537.2
IDB Loans	11.1	62.5	88.6	129.4	190.1	241.1	287.7	297.0	335.1
Bilateral Loans	48.5	72.3	243.1	199.0	202.9	210.5	249.5	313.2	376.2
Private Capital Markets	274.6	588.1	3,898.5	5,744.2	5,683.8	6,802.9	7,819.0	8,711.9	9,328.0
Memorandum items:									
Public Sector Ext. Debt (M+LT)	1,725.2	3,417.7	10,221.7	19,403.7	21,744.5	24,630.7	27,790.8	31,316.9	35,764.2
Private Sector Ext. Debt (M+LT)	n.a.	n.a.	n.a.	2,832.4	3,032.4	3,032.4	3,132.4	3,232.4	3,332.4
Debt Service Ratio (Public)	21.9	28.6	27.3	48.1	57.8	53.9	50.5	45.0	38.3

a/ Current account deficit

b/ Includes changes in reserves

MEXICO: SHORT-TERM OUTLOOK

1. In his most recent State of the Union speech, on September 1, 1978, the President clearly recognized the basic parameters governing economic relations in Mexico as being the existence of (a) "a market economy," (b) "a legal system that guarantees both social and individual rights, including the right to private property," and (c) a [geographic] situation that requires the maintenance of "unrestricted monetary exchange." These parameters are consistent with the functioning of a mixed economy in which the roles of the public and private sectors are clearly defined and socially accepted, and economic policies are such that stable and equitable growth is achieved.

2. With this framework in mind and given the grave situation it inherited, the new Administration assigned first priority to regain confidence in economic management and overcome the crisis. For this purpose a stabilization program was designed, which called on the leadership of the economic authorities and the cooperation of the labor movement, the private sector and the international financial community.

3. The Government committed itself to prudent fiscal and monetary policies and adopted a mixed strategy aimed at reducing lower priority public expenditures while proceeding with high priority investments in petroleum and other sectors. An in-depth administrative reform aiming at rationalizing and improving the overall efficiency of the public sector was implemented, and a special effort to improve the management of public enterprises through more rational pricing and cost control policies was launched.

4. The monetary authorities adopted a tight monetary policy and announced their decision to continue floating the Peso. A series of other measures were taken to help the recovery of financial savings and stop and redress capital flights and to increase credit to the private sector. Early in 1978, the Bank of Mexico started issuing treasury bills thereby gaining additional flexibility for managing monetary policy.

5. The labor movement was asked to exercise restraint in wage demands and accept a 10 percent guideline; minimum wages were adjusted by 10 percent in January 1, 1977. They were again adjusted by about 13 percent on January 1, 1978. The President has clearly stated that he will not allow real wages to deteriorate further but that no automatic price-wage adjustment mechanism will be established.

6. The private sector was asked to exercise restraint on price increases and an agreement was reached between the Government and private producers to ensure an adequate supply of "socially necessary goods and services" at reasonable prices. In return the price controls on other goods were relaxed, special tax and credit support was given to firms in financial difficulties due to the devaluation and, in general, relations between Government and the private sector were greatly improved.

7. The international community was asked to continue supporting Mexico on the basis of the stabilization effort underway and Mexico's potential as a producer and exporter of hydrocarbon resources. Immediately after the devaluation, Mexico obtained major support from the IMF. The Extended Fund Facility (EFF) agreement covering 1977-1979 was ratified by the new Government shortly after taking office three months later.

8. The Government was able to regain confidence in economic management and obtain support for its program. Labor accepted the wage guidelines, the private sector responded slowly but firmly to the challenge and the international community continued backing Mexico in spite of its high debt service burden. The program briefly discussed above has been therefore partially implemented and its results are shown in Table 1 (page 3).

9. The Government has been able to bring the situation under control, the economy is recovering and future growth seems assured. However, there is still lack of clarity within the Government as to which is the most appropriate economic strategy to follow in the years to come.

10. During what has been called the "stabilization period" (1977-78) the Government's overriding and broadly accepted priority was to bring inflation under control and reduce it to manageable levels. By now, important sectors within the Government are challenging this priority and are emphasizing growth of output and employment. As discussed in Attachment G-6, Mexico is in a position to pursue a high growth strategy and at the same time reduce inflation given that it does not face a financial constraint on growth. The condition necessary to avoid the trade-off between growth and inflation is to open efficiently the economy to international trade. Unfortunately, this possibility has not been given enough thought in Mexico yet.

11. The financial authorities (Bank of Mexico, Ministry of Finance) are worried about the likelihood of an acceleration of inflation in 1979 and since they do not have effective control on monetary policy they are stressing the need to keep public sector expenditure expansion at the minimum possible. This is at odds with the generalized belief that the country is now in a position to finance a larger public sector effort given its vast petroleum resources.

12. By the end of 1978 the money supply will be growing at an annual rate of about 30 percent in spite of a virtual freeze on domestic credit to the private sector imposed by the Bank of Mexico at the beginning of October 1978. This strong action was offset by additional private and public sector foreign borrowing, which has become increasingly convenient given the interest rate differentials (the cost of credit for a prime borrower in Mexico has fluctuated around 20-22 percent as against 12-15 percent in the USA) and the widely shared expectation that the Peso will not be devalued.

Table 1: MEXICO - SHORT-RUN ECONOMIC INDICATORS, 1976-1979

	Average 1971-1976	1976	1977	1978 ^{d/}	1979 ^{e/}
	(Annual Rate of Growth)				
GDP (real)					
Mexico	4.9	1.6	0.9	6.0	6.5
USA	2.8	6.0	4.9	4.4	2.0
Inflation					
Mexico (GDY deflator)	14.0	20.9	35.9	17.0	12.5
USA (GNP deflator)	6.8	5.3	5.5	8.0	7.0
Minimum Wages (nominal)	16.8	29.2	27.9	13.0	15.0

Percentages of GDY (current prices)

Public Sector Finances					
Current Revenues ^{a/}	17.1	20.3	20.0	21.7	23.5
Current Expenditures ^{b/}	14.5	17.7	16.7	18.0	18.1
Investment Expenditures ^{b/}	8.6	10.2	8.5	9.2	10.0
Deficit ^{c/}	5.7	7.4	5.1	5.3	4.4
Balance of Payments					
Exports (inc. NFS)	8.7	8.5	10.0	9.8	n.a.
Imports (inc. NFS)	10.7	10.4	10.2	10.7	n.a.
Current Account Deficit	3.9	4.3	2.7	3.3	2.8

^{a/} Include Social Security and INFONAVIT contributions

^{b/} Budgetary controlled public sector and INFONAVIT

^{c/} Financial intermediaries and non-budgetary controlled public sector excluded

^{d/} IBRD estimates

^{e/} Government Program

13. Since the Government seems to have decided to maintain the exchange rate at its current level, mostly for "political" reasons, it has in fact tied-up the hands of the financial authorities, the only alternative open to them being a quick reduction of inflation brought about either through fiscal restraint or a quick opening of the economy to international trade. Since the last option also implies difficult political decisions, which the financial authorities fear the Government will not be able to carry through completely even in the eventuality it decides to move in that direction, they have chosen the first one.

14. This decision is reflected in the Government's budget proposal for 1979 and in its agreement with the IMF on a program to cover the last year of the outstanding EFF. The program contemplates a slight increase in the rate of growth of the economy, a further reduction in the public sector deficit (a maximum public sector deficit of Mes\$125 billion, including the non-budgetary controlled public sector is contemplated), and inflation and maximum net public sector foreign borrowings of US\$3.0 billion (Table 1).

15. The key element of this program is the projected public sector behavior, but it is also its weakest part. Total current revenues are planned to increase from 21.7 percent of GDY in 1977 to 23.5 percent of GDY in 1978, mostly as a consequence of the expected increase in petroleum export revenues and the proposed increase in the price of some goods and services produced by public sector enterprises. It is our belief that the Government's revenue projections are not realistic. In the past, the Government has been reluctant to adjust the prices of goods and services produced by public sector enterprises and we have strong indications that this is likely to happen again. An important tax reform (including the switch to a value added tax starting in 1980 and a broadening of the tax base) was introduced together with the budget. Although it will lead to additional tax revenues in the future its short-run effect will be a loss of about Mex\$16.0 billion in revenues.

16. 1979 is a sensitive year from a political point of view in Mexico because it will witness the first try on the recently introduced political reform. General elections for Congress (Lower House) will take place in June and for the first time the PRI (the official party) will face a somewhat broad opposition, including the PAN (a rightist party) and the Communist and Socialist parties. Under these circumstances, the Government will almost certainly avoid taking measures that could affect its political base, e.g., devalue the Peso, increase the prices of basic goods and services, etc.

17. We have been informed, on a confidential basis, that a package containing the following economic measures will be announced by the end of the year:
(a) a minimum wage adjustment of about 15 percent, (b) a moderate increase in the prices of fuel for industrial consumption (gas, fuel oil and diesel), and (c) a freeze on the price of gasoline and fuel for domestic consumption and other basic consumption goods. 1/ Together with announcing the freeze the cost to the public sector involved in these subsidies will be made known.

1/ We were just informed that measures (a) and (c) were implemented but not (b).

18. The above considerations suggest that the public sector deficit is likely to be higher than projected by the Government and that it will induce further inflationary pressures unless the authorities allow the excess domestic demand to be satisfied by additional imports. It should be stressed that the Government is projecting a balance of payments current account deficit of about US\$3.0 billion in 1979, which is about the same as in 1978.

19. If inflation accelerates and the exchange rate remains constant-- which is likely to happen in 1979--the appreciation of the Peso in real terms will in a sense "force" the economy to accept additional imports but at the price of endangering the growth of Mexico's entire economy outside the petroleum sector. It would also hinder Mexico's capacity to compete in international markets, discourage exports and efficient import substitution, and would make the country increasingly dependent on exports of petroleum and related products. The results of such a strategy would be a slowdown of growth and employment generation and a likely exacerbation of the serious social problems the country is already facing today. (For further details, please see attachment G-6 , paras 10 & 11),

20. To open the economy quickly and efficiently is not an easy proposition and its implementation would require strong political determination. But to try to reduce inflation by concentrating on slowing down expenditures is likely to be self-defeating given the pressures--and probably the need--to increase public sector outlays.

Mexico Division
Programs Dept. (LACI)
January 3, 1979

MEXICO: Oil Sector Developments and Issues ^{1/}

1. Mexico is emerging as one of the major oil-rich countries. As of July 31, 1978, Mexico's proven oil and gas reserves were officially put at 20 billion barrels of oil equivalent, probable reserves at an additional 37 billion and potential reserves at around 200 billion barrels more. On December 31, 1978, PEMEX (the state-owned company in charge of exploitation, production and distribution of petroleum resources in Mexico) announced that proven and probable reserves had been raised to 40.1 and 44.6 billion of crude oil equivalent, as a consequence of a more rapid development of existing fields and the recent discoveries of new ones. This puts Mexican combined oil and gas reserves as the sixth largest in the world, after Saudi Arabia, Kuwait, USSR, Iran, USA and Iraq. (See Table 1, attached.)

2. A strong debate as to which is the most convenient strategy Mexico should follow in exploiting its vast hydrocarbon resources is now underway within the country. It should be noted that this is an extremely sensitive issue in Mexico given petroleum's status as one of the most important symbols of Mexico's Revolution and drive for independence. The importance of the issue has been further magnified by the forthcoming visit of President Carter to Mexico and the central role everybody expects petroleum to play in the discussions between both the Presidents.

3. The strategy that seems to be emerging out of the internal Mexican debate emphasizes the need to use the petroleum for supporting a rapid development of the rest of the economy; the production and exports of petroleum being tailored to the need of financing a given share of the country's total investment requirements rather than to the petroleum sector production capacity. This approach is implicit in President Lopez Portillo's recent statement (last State of the Union speech, September 1, 1978) that Mexico will not use its petroleum resources to pre-pay external debt or to invest abroad, and in PEMEX's plan to maintain a constant volume of crude exports of about 1,070 thousand bbls/day after 1980. Our analysis suggests that this is a feasible medium and long-term strategy for Mexico and that it may also be the most convenient one for the country.

4. Another important and related issue now under consideration are the options open to Mexico for using its vast gas resources. Originally Mexico had planned to export about 2.0 billion cubic feet/day to the USA, starting in 1980, and with that purpose in mind had decided to build a gas pipeline linking the south-east producing areas with the USA border. Since Mexico and the USA were not able to reach an agreement on the price of this gas, Mexico is faced with the options of consuming the gas internally or of flaring it. This is so because most of the additional production of crude condensates and gas (associated gas) would come from the newly discovered fields located in the southeast region, which has rather high average gas/oil ratios of about 1,500 - 2,000 cubic feet of gas per barrel of crude oil. (See Map 1, attached.)

^{1/} For a detailed discussion of these issues please see the attached economic report on Mexico: IBRD, "Special Study on the Mexican Economy: Major Policy Issues and Prospects, 1977-82", paras. 230-245 and 269-275, pages 88-97 and 103-106, respectively.

5. Our analysis suggests that Mexico can increase substantially domestic consumption of natural gas almost immediately and export the released fuel-oil, thereby avoiding flaring gas. The price of not exporting gas would be an annual reduction of export revenues ranging between US\$600 million and US\$900 million between 1979 and 1982. It should be stressed that if Mexico and the USA were to reach an agreement on the price issue, Mexico would be able to start rapidly exporting gas, since the gas pipeline linking the south-east and north producing areas will be operational early in 1979. (See Map 2, attached.)

6. Finally, it should be noted that domestic prices of petroleum and related products are heavily subsidized, thereby inducing many distortions throughout the economy and depriving the public sector of an important source of additional revenues. We have estimated that the implicit subsidy to the Mexican economy--as measured by the difference between domestic prices of fuels in Mexico and international bulk prices in the Caribbean area--amounted to more than 3 percent of GDY in 1977. Cheap fuel has induced Mexico to consume much more than do other countries at similar stages of development and has resulted in an almost total neglect of other sources of energy. Any corrective measure in this area would release additional hydrocarbons for export.

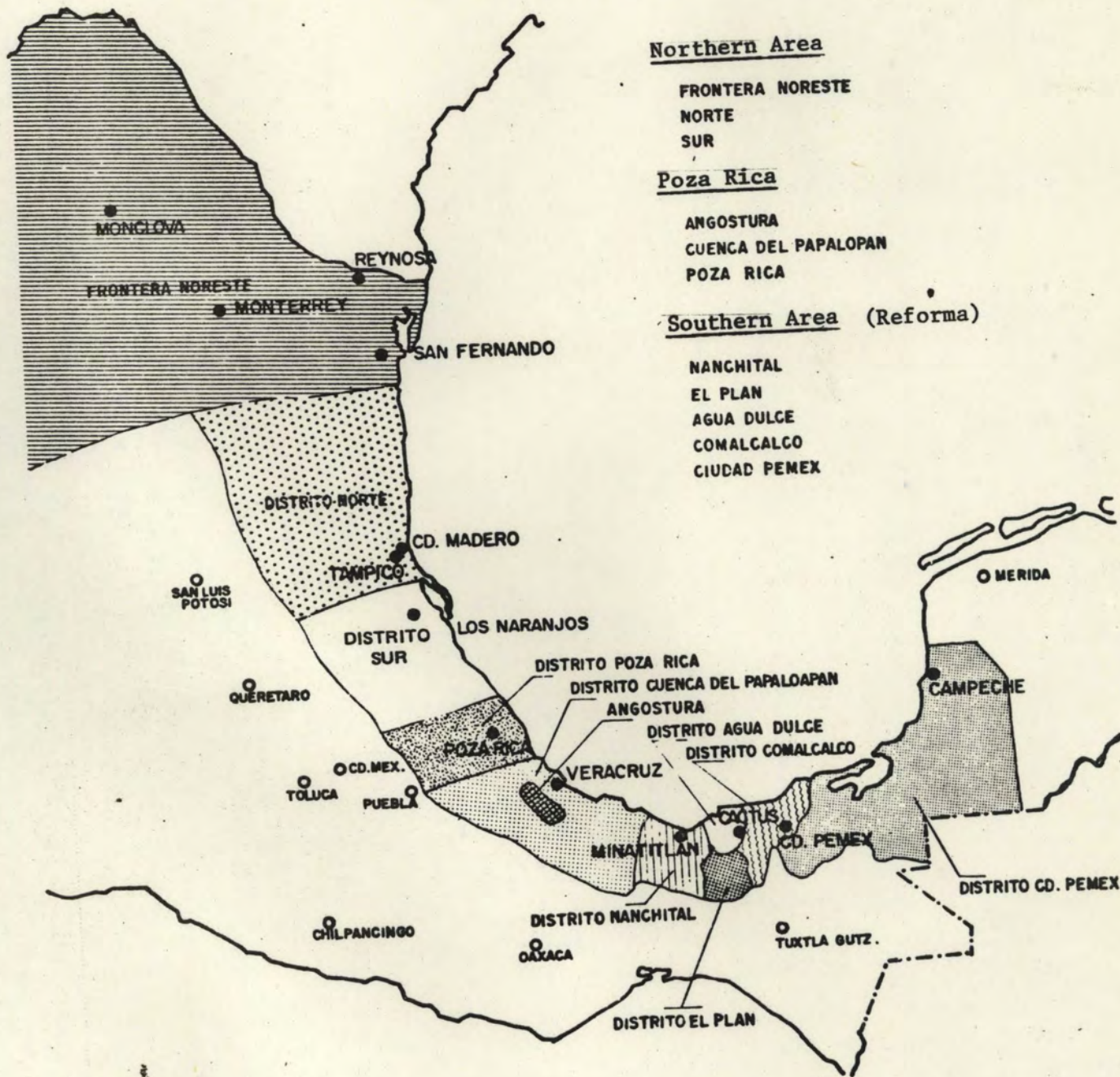
Mexico Division
Programs Dept. (LACI)
January 3, 1979

Table 1: WORLDWIDE OIL AND GAS STATISTICS

	Proven Reserves				Oil Production 1977	Crude Refined Capacity 1978
	Oil		Gas			
	<u>billion barrels</u>	<u>billion barrels</u>	<u>billion cuft.</u>	<u>billion cuft.</u>		
	<u>1975</u>	<u>1978</u>	<u>1975</u>	<u>1978</u>	(billion b/d)	(million b/cd)
<u>Main Exporting Countries</u>						
Saudi Arabia	103.5	150.0	59,861	85,000	9.0	.6
Kuwait	70.9	67.0	38,139	31,500	1.7	.7
Iran	68.0	62.0	374,400	500,000	5.6	.9
Iraq	35.1	34.5	27,467	28,000	2.2	.2
Abu Dhabi	40.3	31.0	31,018	20,000	1.7	-
Other Middle East Countries	21.4	21.7	44,817	55,200	1.6	1.1
Indonesia	12.0	10.0	15,000	24,000	1.7	.5
Libya	23.0	25.0	28,255	25,700	2.0	.1
Nigeria	13.6	18.7	50,244	43,000	2.2	.1
Venezuela	18.6	18.2	40,000	41,000	2.3	1.4
<u>Mexico</u>	<u>3.1</u>	<u>14.0</u>	<u>11,185</u>	<u>30,000</u>	<u>1.0</u>	<u>1.4</u>
<u>Main Consuming Countries</u>						
Japan	.1	.1	1,342	525	-	5.5
Western Europe	15.5	26.9	141,025	138,190	1.4	20.7
USA	34.2	29.5	237,133	210,000	8.2	16.8
<u>Other</u>						
Non-Communist Countries	15.0	17.5	260,370	332,584	5.8	13.4
Communist Countries	73.4	98.0	737,680	955,000	13.2	13.9
<u>Total World</u>	<u>569.1</u>	<u>645.8</u>	<u>2,097,946</u>	<u>2,519,659</u>	<u>59.5</u>	<u>77.3</u>

Source: The Oil and Gas Journal, December 26, 1977.

OIL AREAS AND DISTRICTS



Northern Area

- FRONTERA NORESTE
- NORTE
- SUR

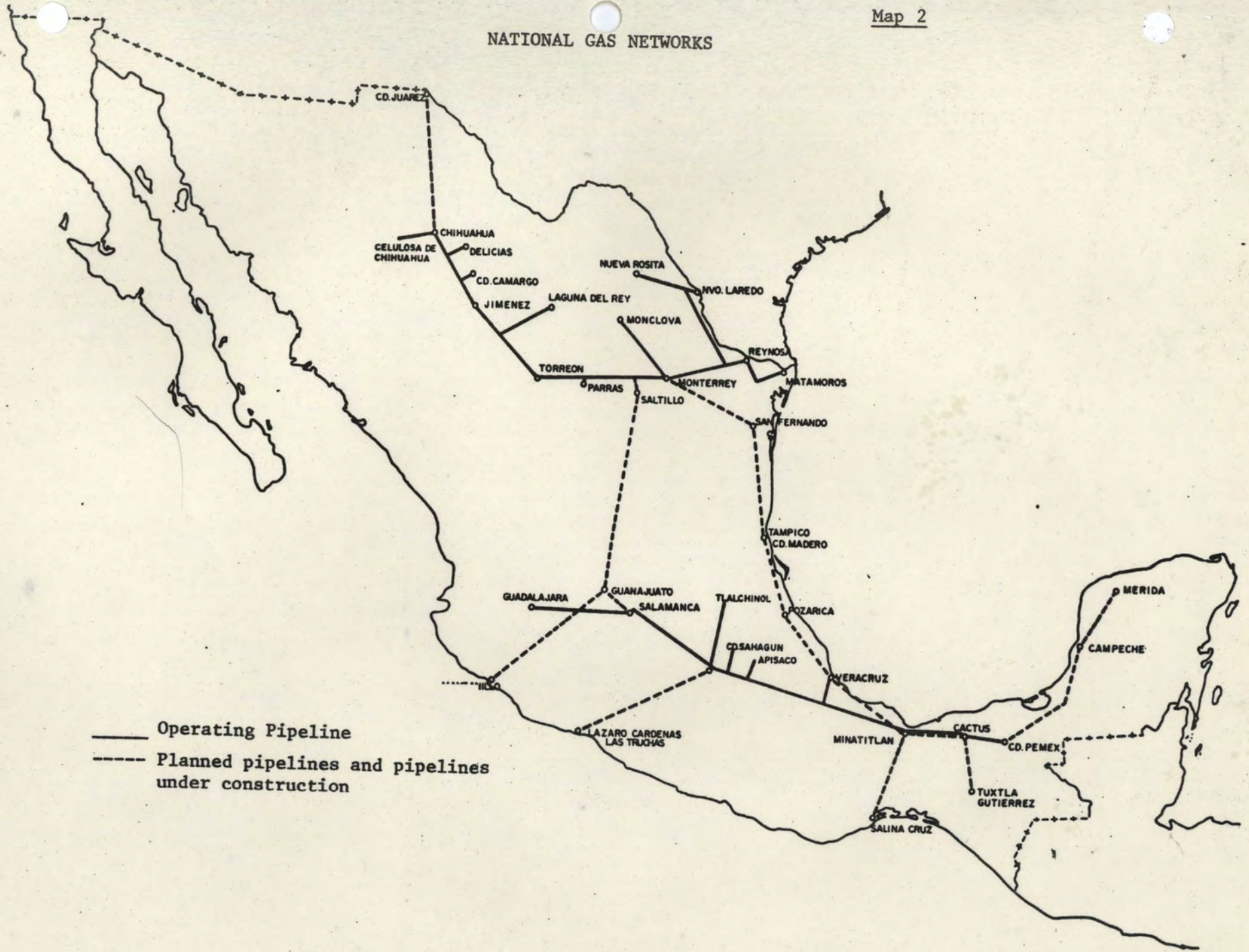
Poza Rica

- ANGOSTURA
- CUENCA DEL PAPALOAPAN
- POZA RICA

Southern Area (Reforma)

- NANCHITAL
- EL PLAN
- AGUA DULCE
- COMALCALCO
- CIUDAD PEMEX

NATIONAL GAS NETWORKS



— Operating Pipeline
- - - Planned pipelines and pipelines under construction